2006

Report of the

AUDITOR GENERAL

to the

Legislative Assembly

Prince Edward Island

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2006

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Prince Edward Island
Office of the Auditor General
PO Box 2000, Charlottetown PE
Canada C1A 7N8

Île-du-Prince-Édouard
Bureau du vérificateur général
C.P. 2000, Charlottetown PE
Canada C1A 7N8

The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my Annual Report to the Legislative Assembly.

Respectfully submitted,

Colin Younker, CA
Auditor General

Charlottetown
Prince Edward Island
March 9, 2006

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INTRODUCTION

REPORT OVERVIEW

The Audit Act requires the Auditor General to report annually to the Legislative Assembly. This Annual Report 2006 provides observations, recommendations and information pertaining to the audits and examinations of government operations conducted by the Office during the year. The purpose of this report is to assist the Legislative Assembly in carrying out its responsibility to hold the government accountable for the management of public resources.

This Annual Report deals mainly with matters pertaining to the 2004-2005 fiscal year, however, many of the issues identified remain current and are still being addressed by government.

It is not possible to audit all government programs and entities each year, however, the Office strives to provide reasonable audit coverage on a cyclical basis. A large portion of the audit work is determined by statutory requirements which name the Auditor General as auditor. These requirements include the annual audit of the Public Accounts of the Province. The remainder of our resources are devoted to special audits and examinations.

This report includes information and discussion on the **Province's Finances**. The section on **Special Audits and Examinations** includes the results of various examinations conducted during the year including; Student Transportation - Eastern School District, East Prince Health - Seniors Services, Liquor Control Commission, Professional and Contract Services, and the Public Trustee. The 2005 Annual Report recommended that a forensic audit be conducted on the operations of Polar Foods International Inc. for the period commencing with the signing of the Marketing Agreement to February 27, 2004. The forensic audit was completed and a report was issued by KPMG LLP in 2005. I am also providing information on the results of this forensic audit. The **Financial Statement Audits** section provides information on significant issues arising from the financial statement audits conducted by the Office.

Each year we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous years. This information is included in a separate section of the report, **Update on Previous Recommendations.**

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee, and its proceedings during the past year, is provided in a separate section of the report.

The section on the **Office of the Auditor General** provides information on the mission and mandate of the Office, as well as the responsibilities of the Auditor General. Background information is provided on the objectives and accomplishments of the Office and the resources used to achieve them.

ACKNOWLEDGEMENTS

Cooperation of Ministers, Deputy Ministers, heads of Crown agencies and their staff is important. To carry out our work it is imperative that we receive the necessary information, reports and explanations. I wish to acknowledge that my Office received cooperation in the completion of the audits covered in my Annual Report.

I would like to thank my staff for their support and dedication over the past year. Their continued effort, input and professionalism are integral to the work of the office, this report and the recommendations therein.

INTRODUCTION

APERÇU DU RAPPORT

L'Audit Act (loi sur la vérification des comptes publics) stipule que le vérificateur général doit déposer un rapport devant l'Assemblée législative tous les ans. Le présent rapport annuel de 2006 fournit les observations, recommandations et renseignements liés à la vérification et à l'examen des activités gouvernementales effectués par le Bureau du vérificateur général pendant l'exercice 2004-2005. Ce rapport vise à aider l'Assemblée législative à veiller à ce que le gouvernement rende des comptes aux contribuables quant à sa gestion des fonds publics.

Le présent rapport annuel traite principalement de questions propres à cet exercice, bien que de nombreuses questions soulevées demeurent d'actualité et doivent être traitées par le gouvernement.

Il n'est pas possible de vérifier l'ensemble des programmes et organismes gouvernementaux chaque année, quoique le Bureau du vérificateur général s'efforce de fournir une vérification raisonnable et cyclique de ceux-ci. Une partie importante du travail de vérification est établie par des exigences réglementaires, en vertu desquelles le vérificateur général est nommé. Ces exigences comprennent la vérification annuelle des comptes publics du gouvernement provincial. Le reste des ressources du Bureau sont consacrées aux vérifications et examens spéciaux.

Le présent rapport comprend des renseignements sur les **finances du gouvernement provincial** et une analyse de celles-ci. La section sur les **vérifications et examens spéciaux** comprend les résultats de divers examens effectués en cours d'exercice, notamment : la Commission scolaire de l'Est – transport des élèves, Santé Prince-Est – Services aux Aînés, Commission, la Régie des Alcools de l'Î.-P.-É., les Services professionnels et de contrat et le curateur public. Le rapport annuel 2005 recommandait de procéder à une vérification judiciaire des opérations de Polar Foods International Inc. pour la période débutant avec la signature de l'entente de commercialisation jusqu'au 27 février 2004. La vérification judiciaire a été effectuée et un rapport a été délivré par KPMG LLP en 2005.Les renseignements issus des résultats de cette vérification judiciaire ont été reproduits dans le présent rapport annuel. La section consacrée à la **vérification des états financiers** contient quant à elle

des renseignements sur des questions importantes soulevées dans le cadre de la vérification de divers états financiers menée par le Bureau.

Chaque année, le Bureau communique avec les ministères et organismes gouvernementaux afin d'obtenir des renseignements de suivi sur l'état de toute recommandation des exercices précédents restée en suspens. Ces renseignements sont inclus dans une section distincte du rapport offrant une **mise à jour sur les recommandations précédentes.**

Le **Comité permanent des comptes publics** étudie le rapport annuel déposé par le vérificateur général et joue un rôle majeur dans le processus en vertu duquel le gouvernement est tenu de rendre des comptes quant à sa gestion des fonds publics. Des renseignements sur le rôle de ce comité et sur ses réunions au cours du dernier exercice sont fournis dans une section distincte du rapport.

La section sur le **Bureau du vérificateur général** fournit des renseignements sur la mission et le mandat du Bureau, de même que sur les responsabilités du vérificateur général. On y trouve aussi des renseignements généraux quant aux objectifs et réalisations du Bureau, de même qu'aux ressources utilisées pour y parvenir.

REMERCIEMENTS

La collaboration des ministres, des sous-ministres, des dirigeants des sociétés d'État et de leur personnel est importante. Pour que le vérificateur général puisse effectuer son travail, il est primordial qu'il reçoive les renseignements, les rapports et les explications nécessaires. Je souhaite souligner la collaboration générale de ces personnes avec mon bureau dans le cadre des vérifications présentées dans le présent rapport annuel.

Je souhaite exprimer toute ma reconnaissance aux membres du personnel du Bureau pour leurs efforts et leur dévouement au cours du dernier exercice. Le présent rapport et les recommandations qu'il contient reposent sur leur professionnalisme, leurs observations et leur engagement.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 To assist members of the Legislative Assembly, we provide an update each year on the Province's finances. The financial information is important because it indicates where we are financially and what decisions will be required to ensure programs and services will be provided in the future.

1.2 The Consolidated Financial Statements are the primary source of information to assess the financial condition of the Province. In the past year, the net debt increased by $16.9 million. This represents a significant change from the increases in net debt of $134.1 and $83.6 million in the preceding two years.

1.3 While the net debt increased by 1.3 percent the Provincial gross domestic product (GDP) increased by 4.3 percent. However, because of the deficits in recent years, the Province's net debt of $1.3 billion remains a concern.

1.4 This year we are providing a ten year trend analysis for revenues and some major expenditures.

BACKGROUND

1.5 The Public Accounts record the Government's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The statements combine the financial activities of many diverse Government programs and entities with total expenditures of over $1.1 billion. As a result of the recommendations of the Public Sector Accounting Board, the 2004-05 Public Accounts of the Province include non-financial assets.

1.6 As in previous years, we are providing information to help put the numbers into perspective. The presentation is made in a format that focuses on key information to assist the Legislature and the public in obtaining a better understanding of the Province's financial condition. The Province's finances have a significant impact on the Provincial economy.

1.7 This discussion of the Province's finances is based on the Consolidated Financial Statements, which include departments, the Special Projects Fund, Crown corporations, regional health authorities, school boards, and other organizations which are part of the overall Government reporting entity.

FINANCIAL MEASURES

1.8 Some of the common terms used to describe the Province's financial condition are presented below.

1.9 The **annual surplus or deficit** is the difference between a government's revenue and expense. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year. For the year ended March 31, 2005 the Province incurred a deficit of $33.6 million.

1.10 The **total debt** is the amount owed by the Government. Government's debt includes outstanding debentures, pension obligations, and other accounts payable. The total debt of the Province as of March 31, 2005 was approaching $2 billion.

1.11 **Financial assets** are cash and other assets which could provide resources to pay liabilities or finance future operations. Total financial assets at March 31, 2005 were $650 million.

1.12 The **net debt** is equal to the difference between the Government's total liabilities and its financial assets. The net debt of the Province as of March 31, 2005 was $1.3 billion.

1.13 **Non-financial assets** include tangible capital assets such as buildings, roads and equipment as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired and is reduced over a period of time through amortization. At March 31, 2005 non-financial assets had a book value of $568.6 million.

1.14 The **accumulated deficit** represents the Province's liabilities net of the assets the Province has acquired, both financial and non-financial. It is calculated based on the surpluses and deficits incurred over the years. The accumulated deficit at March 31, 2005 was $760.9 million compared to $729.9 for the previous year.

1.15 The **interest charged on borrowings** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on Government programs.

1.16 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year. The Province's GDP is measured and reported by Statistics Canada.

1.17 **Exhibit 1.1** shows a summary of some key financial measures for the Province over the past three years.

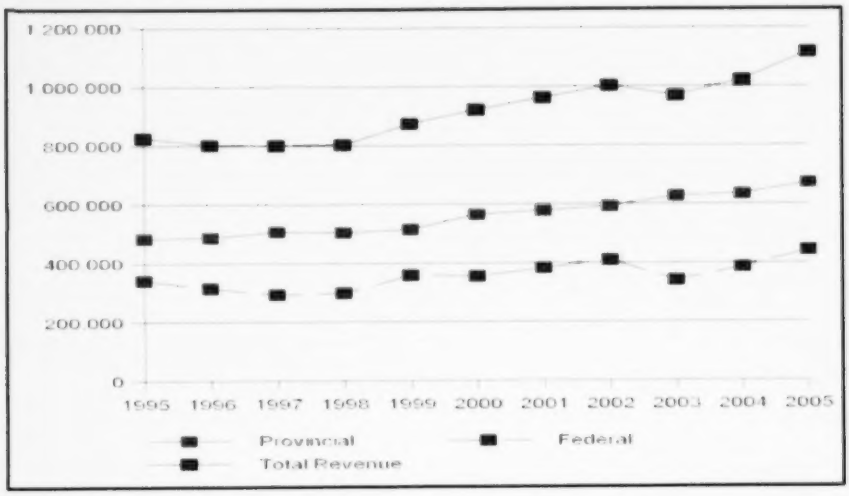
EXHIBIT 1.1
PROVINCE OF PRINCE EDWARD ISLAND
SUMMARY OF FINANCIAL INFORMATION
(Millions)

	2005	2004	2003 Restated
Deficit	$33.6	$125.1	$54.6
Increase (decrease) in Non-Financial Assets	(16.7)	9.0	29.0
Increase in Net Debt	$16.9	$134.1	$83.6
Net Debt	$1,329.5	$1,312.6	$1,178.5
Non-Financial Assets	568.6	582.7	573.7
Accumulated Deficit	$ 760.9	$ 729.9	$ 604.8
Debt Charges	$104.9	$106.5	$103.1
GDP	$4,023	$3,858	$3,747

Revenue Trends

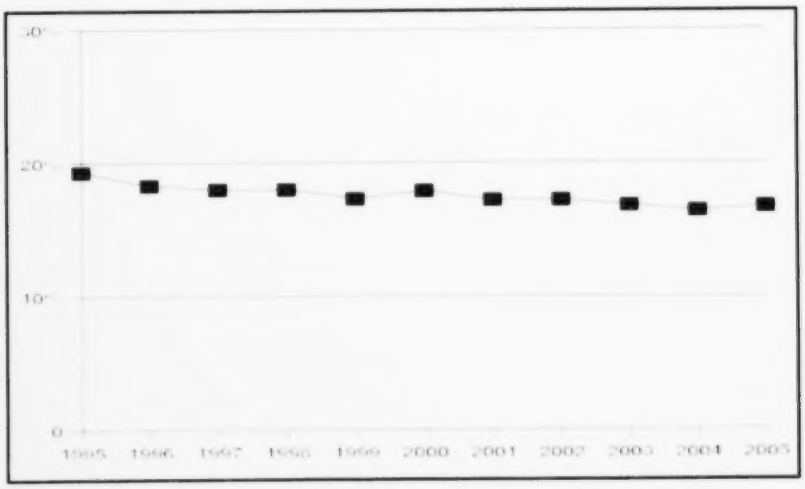
1.18 Exhibit 1.2 shows the Province's revenue, federal transfers and revenue from provincial sources over the last ten years. Federal revenue has increased by 29.9 percent while provincial revenue has increased by 38.9 percent. Overall, the Province's total annual revenue increased by $290 million which represents a 35 percent increase. Of the increase, $188 million, is a result of increases in provincial revenue, and $102 million in federal revenue.

EXHIBIT 1.2
REVENUE, 1995-2005
($000s)



1.19 Exhibit 1.3 shows the ratio of Provincial revenue to GDP for the years 1995-2005. The trend in this indicator shows that government has not increased its own source revenue at the same rate as the growth in the Province's economy.

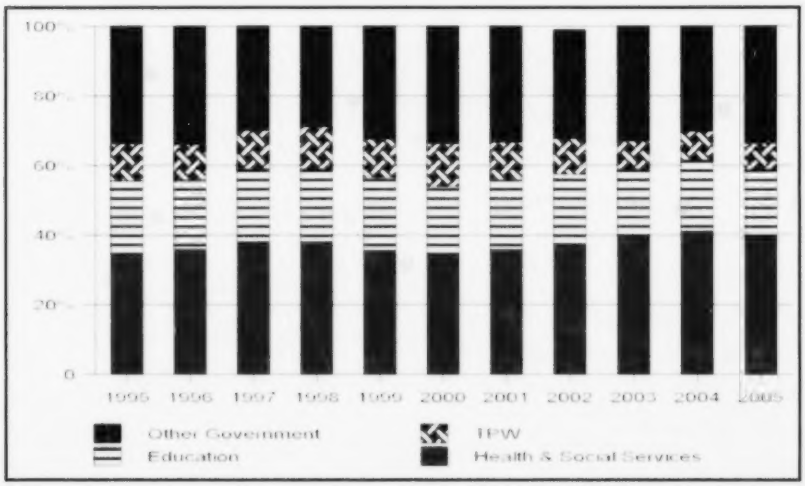
EXHIBIT 1.3
PROVINCIAL REVENUE AS A PERCENT OF GDP



Expenditure Trends

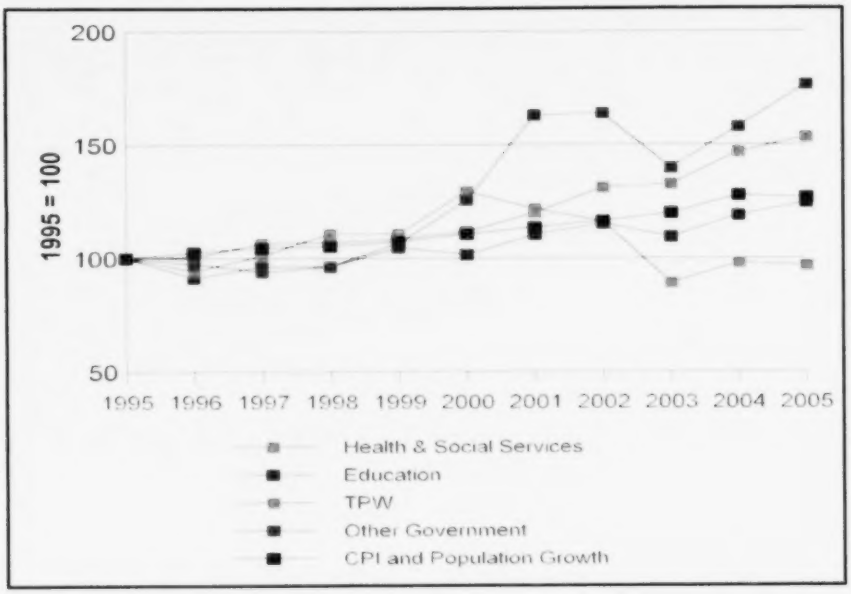
1.20 Exhibit 1.4 shows the annual expenditures for the Province as a percent of revenue for the period 1995-2005. The expenditures are reflected for Health and Social Services, Education, Transportation and Public Works and the remainder of government. Health and Social Services has increased its share of revenue by 4.7 percent which translates to approximately $47 million; Education and Transportation and Public Works are taking a smaller share of the revenue; and the remainder of government has increased similar to Health and Social Services.

EXHIBIT 1.4
PROGRAM EXPENDITURES, 1995-2005
AS A PERCENT OF REVENUE



1.21 Exhibit 1.5 shows the rate of change in the larger expenditures for the last ten years. For comparative purposes the Consumer Price Index for the Province is also included on the graph.

EXHIBIT 1.5
GOVERNMENT EXPENDITURE GROWTH



1.22 Relative to the Consumer Price Index, expenditures for Health and Social Services have increased significantly. Increases in Education expenditures have reflected the change in the Consumer Price Index while Transportation and Public Works expenditures have lagged behind significantly in recent years.

1.23 Over the past few years we have reported on certain key indicators of Government's finances. These have been defined in the Research Report entitled, *Indicators of Government Financial Condition* published by the Canadian Institute of Chartered Accountants. The indicators are categorized as sustainability, flexibility and vulnerability. The trends in these indicators provide useful information to assess the financial condition of the Province.

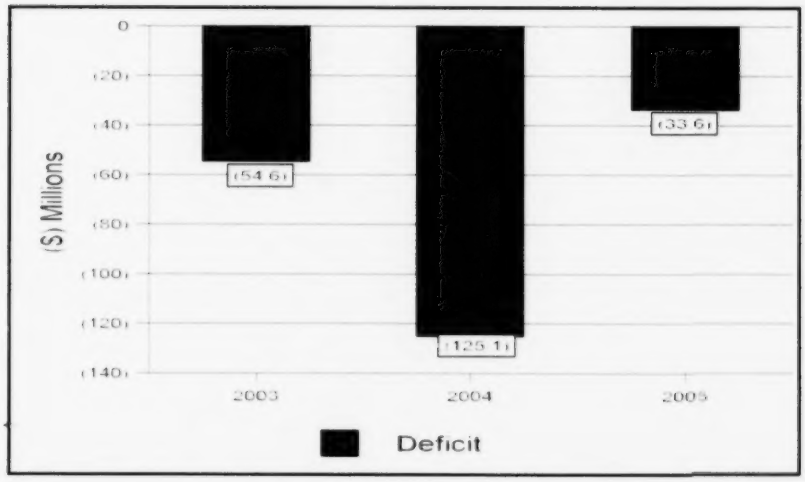
Sustainability

1.24 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the Government's annual surplus or deficit, net debt and the Provincial GDP provides

insight into the sustainability of a government's practices of incurring expenditures and generating revenues.

1.25 The annual deficit or surplus indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether Government is living within its means. **Exhibit 1.6** shows the annual deficit for the last three years. For these years the deficits have totalled $213.3 million. To reverse this trend Government has to either increase revenue or reduce expenses.

EXHIBIT 1.6
THE GOVERNMENT'S DEFICIT
2003-2005



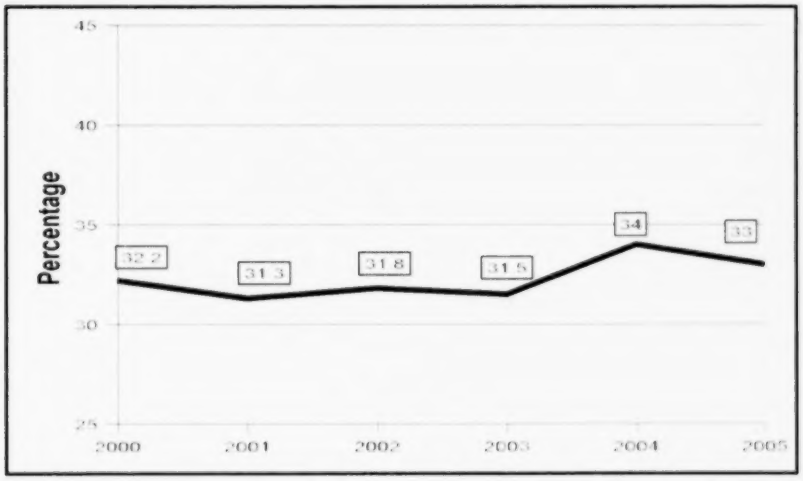
1.26 The net debt is the difference between Government's total liabilities and its financial assets. Since 2002 the net debt increased by $234.6 million or 21 percent and totalled $1.3 billion at March 31, 2005.

1.27 The GDP of the Province indicates the size of our economy. The Province's economy supports Government operations through taxes and fees. While the net debt has increased by 21 percent since 2002, the GDP of the Province increased by 17 percent. If this trend continues, the Province will have a reduced capacity to maintain

programs and services without increasing the tax burden on the economy.

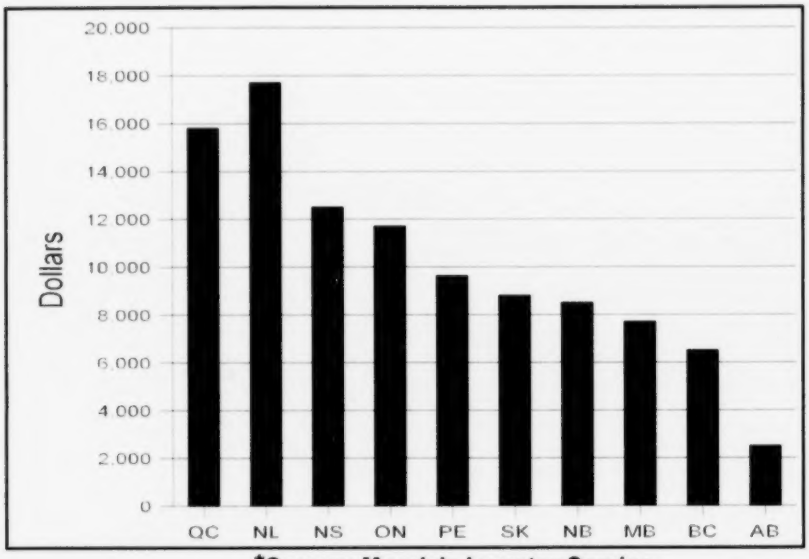
1.28 **Exhibit 1.7** shows the net debt to GDP ratios since 2000. The 2003-04 deficit of $125.1 million caused the net debt to GDP ratio to increase significantly.

EXHIBIT 1.7
NET DEBT AS A PERCENT OF GDP



1.29 To help put this information into perspective, it is useful to compare our net debt per capita with other provinces. The Ministry of Finance for British Columbia reported the information in **Exhibit 1.8.** The information is adjusted for interprovincial comparison and is presented on a different basis than our Public Accounts. However, it does provide a basis for assessment relative to the other provinces.

EXHIBIT 1.8
INTERPROVINCIAL COMPARISON OF
TAXPAYER-SUPPORTED NET DEBT PER CAPITA
AS AT MARCH 31, 2005*



*Source: Moody's Investor Service

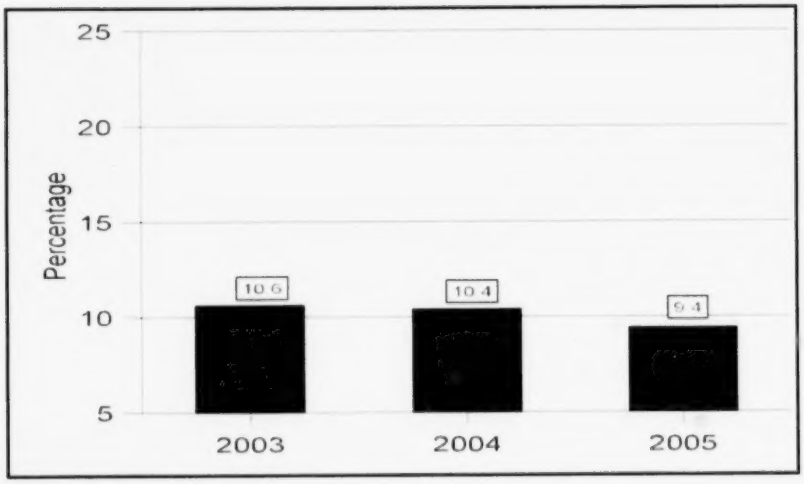
Flexibility

1.30 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to changing economic conditions such as a recession or higher interest rates without making substantial changes to the way it operates.

1.31 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services.

1.32 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is sometimes referred to as the "interest bite". In 2004-05, debt charges on Government borrowings were $104.9 million. The trend in the interest bite is shown in **Exhibit 1.9.**

EXHIBIT 1.9
INTEREST COSTS AS A PERCENT OF REVENUE



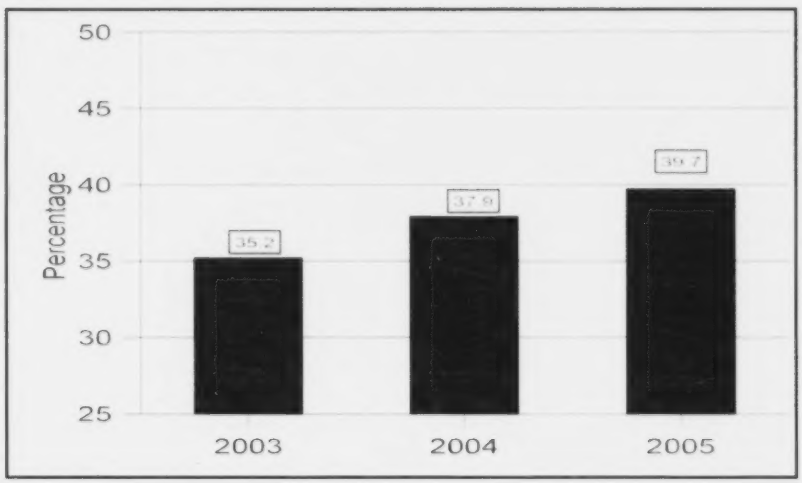
1.33 As indicated in **Exhibit 1.9**, the interest bite has remained relatively constant for the past two years. Our net debt is over a billion dollars and the first $104.9 million must be earmarked to pay interest costs and is unavailable for Government programs. Recent debenture issues have been for terms of 25-30 years at comparatively low interest rates.

1.34 The total amount of interest expense for pension and other related obligations was $19.2 million for 2004-05. As in previous years, this amount was not included in debt charges.

Vulnerability

1.35 Vulnerability is the degree to which a government is dependent on, and therefore vulnerable to sources of funding outside its control or influence. In 2004-05, the federal government provided approximately $443 million to the Province, an increase of $56 million from 2003-04. The trend in federal revenues relative to total revenues for the last three years is shown in **Exhibit 1.10.** This exhibit shows that approximately 40 cents of each dollar of revenue received by the Province in 2004-05 came from the federal government.

EXHIBIT 1.10
FEDERAL REVENUE AS A PERCENT OF TOTAL REVENUE



1.36 Revenue from provincial sources is more controllable through measures such as Provincial tax legislation or adjustments in user fees. Federal transfers are subject to different variables such as federal fiscal policies and the performance of other provincial economies. Any federal fiscal policy change impacts on the Province.

SUMMARY

1.37 It is important for Members of the Legislative Assembly to have a regular update on the financial condition of Government. This section provides summary information using indicators recommended by the Canadian Institute of Chartered Accountants. The indicators provide useful insight into Government's ability to sustain its programs, the flexibility it has to respond to economic changes, and its vulnerability to sources of outside funding. The indicators help to put the finances of Government into perspective and assist Members to understand and interpret the information.

1.38 Further to the above discussion, we recognize that there are other relevant non-financial matters which have to be taken into consideration by Members of the Legislative Assembly in making budgetary decisions and setting Government policy direction.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 Subsection 13(2) of the Audit Act states that the Auditor General may conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions.

2.2 Given the size of the Office and the complexity and size of government operations, it is not possible to audit all Government programs each year. In determining the annual audit program for the Office many factors are considered such as the results of previous audits, the total revenues and expenditures at risk, the complexity of operations of the entity, the significance of potential issues that may be identified by an audit, and the impact of the program on the public.

2.3 Special audits and examinations are conducted in accordance with standards established by the Canadian Institute of Chartered Accountants. These types of audits are conducted in a series of stages. During the planning phase information is gathered to gain an understanding of the program or entity, and an audit plan is prepared. Evidence is obtained and analyzed and observations and recommendations are developed in the implementation phase. In the reporting phase a draft report is issued to the auditee for discussion. At the conclusion of the audit, a final report is issued to the department or agency and a written response is requested.

2.4 Our work involves providing recommendations to management to address problems identified. We do not however infringe on management's right to select the most appropriate course of action to deal with the problems identified. We are primarily concerned that the issues raised are satisfactorily addressed.

2.5 Under Section 16 of the Audit Act, the Auditor General is required to call attention to any matters which he considers necessary to be brought to the attention of the Legislative Assembly. This report provides information on the following: Student Transportation - Eastern School District; East Prince Health - Seniors Services; Liquor Control Commission; Professional and Contract Services; and the Public Trustee. This year we are also providing information on the September 30, 2005 Report prepared by KPMG LLP on Polar Foods International Inc.

3. STUDENT TRANSPORTATION - EASTERN SCHOOL DISTRICT

BACKGROUND

3.1 There are approximately 14,000 students enrolled in 43 schools in the Eastern School District. Of these, 12,000 are transported to school by bus. The parents of these children rely on the District to implement a safe and efficient student transportation system. As of September 2005 the District had 162 buses, and 14 spare buses to be used as replacements when necessary. The District employs 162 permanent bus drivers with 45 substitute drivers on the approved list.

3.2 Funding for the operation of the Eastern School District is provided in the form of a grant from the Department of Education. Expenditures for student transportation over the last five years are illustrated in **Exhibit 3.1**.

EXHIBIT 3.1
EASTERN SCHOOL DISTRICT
OPERATING EXPENSES
STUDENT TRANSPORTATION
($000)

	2005	2004	2003	2002	2001
Bus Parts and Supplies	$ 584	$ 620	$ 650	$ 631	$ 601
Fuel and Gas	873	641	645	563	615
Insurance	88	98	117	94	42
Contracted Services	212	174	174	184	249
Extra Curricular	74	64	55	44	47
Other	98	114	119	95	114
	1,929	1,711	1,760	1,611	1,668
Salaries and Benefits	4,682	4,611	4,322	4,201	4,190
	$6,611	$6,322	$6,082	$5,812	$5,858

3.3 At the time of our audit the Eastern School District operated two bus depots, located at Charlottetown and Cardigan, to carry out repairs and maintenance on all buses operating in the District. In 2005, Executive Council approved a proposal to consolidate the

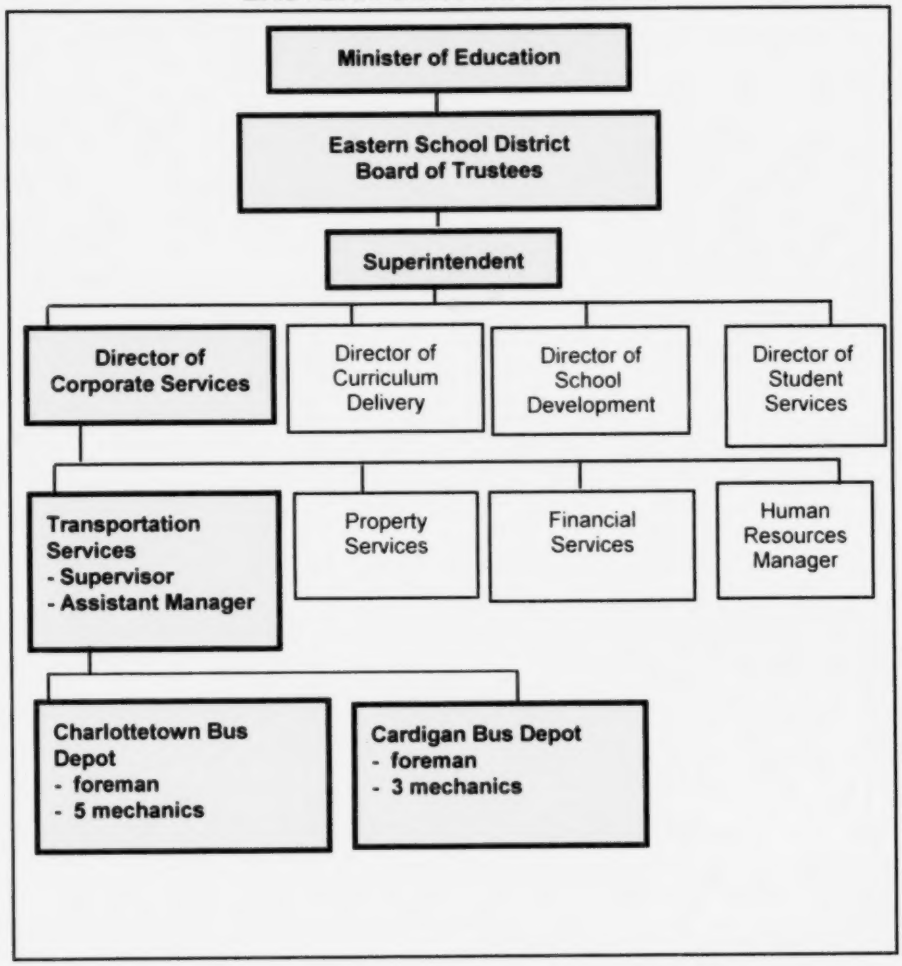
acquisition and maintenance of the bus fleet with other government fleet operations through the creation of a new Prince Edward Island Fleet Services Agency. At the completion of our audit this proposal was still in the planning stages and the implementation process had not been determined.

3.4 The Minister of Education is responsible for the administration of the School Act, ensuring the provision of educational services through the Department and the School Boards, and for overall leadership of the educational system in the Province. Under the Act one of the responsibilities of School Boards is to provide for the transportation of students. In addition, Student Transportation Regulations have been established pursuant to the School Act which, along with policies established by the Eastern School District, set out the requirements for student transportation in the District.

3.5 The Eastern School District policies are relatively detailed in most areas of student transportation and we expected to find procedures in place to ensure that the requirements for student transportation were met.

3.6 **Exhibit 3.2** illustrates the lines of authority for student transportation within the Eastern School District. In addition the school principals have certain responsibilities for student transportation and bus drivers transport students throughout the District.

EXHIBIT 3.2
ORGANIZATION CHART
STUDENT TRANSPORTATION
EASTERN SCHOOL DISTRICT


Minister of Education
Eastern School District Board of Trustees
Superintendent
Director of Corporate Services
Director of Curriculum Delivery
Director of School Development
Director of Student Services
Transportation Services - Supervisor - Assistant Manager
Property Services
Financial Services
Human Resources Manager
Charlottetown Bus Depot - foreman - 5 mechanics
Cardigan Bus Depot - foreman - 3 mechanics

3.7 In 2003, the Eastern School District established an Adhoc Committee of the Board to review and update the policies and regulations for student transportation. The Committee reviewed numerous issues related to student transportation and documented responsibilities for students, parents, bus drivers, principals and the transportation supervisor.

OBJECTIVES AND SCOPE

3.8 In accordance with Section 13 of the Audit Act, we conducted an examination of student transportation in the Eastern School District. Our objective was to determine if appropriate management practices were in place for the planning and implementation of transportation services.

3.9 Our audit scope focused on the period from July 1, 2004 to October 31, 2005. This period included the full fiscal year from July 1, 2004 to June 30, 2005 as well as the planning activities for 2005-06.

3.10 Our examination was conducted in accordance with the standards for assurance engagements encompassing value for money, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Driver Training and Employment Standards

3.11 Bus drivers provide a vital role in the transportation of students within the Eastern School District (ESD). We looked for the District to have employment standards in place to ensure that drivers have appropriate qualifications.

3.12 The Regulations to the School Act set out detailed requirements for bus drivers including such things as a current Class II drivers license, annual medical certificates, annual vision tests, as well as numerous other driver responsibilities. While the regulations do not specifically require a criminal records check, a policy in place at the District requires criminal records checks for all persons hired after 1998. The School Act Regulations require the bus driver to report to the Superintendent any loss of license or criminal charges involving driving or assault.

3.13 We reviewed the personnel files for a sample of permanent and substitute drivers. We looked for the files to provide evidence of:

- a valid Class II drivers license;
- a criminal records check;
- annual medical certificates;
- annual vision tests, and
- current first aid certification.

3.14 We found that evidence of a valid Class II drivers license was not always on file. The Human Resources Division in the past maintained a photocopy of the current license for each driver. We found that the majority of these were not updated. When we reviewed the annual vision tests, however, we found that the current expiry date of each drivers license was noted on the vision report. Upon review of these notes there was still one permanent driver for which there was no evidence of a current Class II license at the time of our review.

3.15 We enquired of district staff to determine if there was a process in place to flag licences due for renewal. We were advised that this could be part of the management information system but it had not been implemented. We were also advised that a process had been recently established where Highway Safety Division would provide formal notification to the Eastern School District for any bus driver whose license was suspended.

3.16 As indicated, the criminal records check became a requirement of employment in 1998. When we reviewed our sample we found, of the drivers hired subsequent to 1998, there were two permanent drivers and three substitute drivers with no criminal abstract on file. In addition, one of the permanent drivers did not have a current first aid certification on file.

3.17 These regulations and job requirements have been established for the safety and protection of students. We realize that the Human Resources section has recently experienced a significant staff turnover, however, it is essential that responsibilities be clearly defined and monitoring of job requirements be carried out.

Recommendations

3.18 The Eastern School District should develop a process to ensure all bus drivers have a valid Class II license.

3.19 Criminal record checks should be obtained for all bus drivers.

3.20 Employment requirements for bus drivers established by regulation and job position should be followed.

3.21 The School Act Regulations require each bus driver to successfully have, or complete within one year, a school bus driver training program as prescribed in the Minister's Directive. In practice the training program is a requirement under the bus driver application and is listed in job position requirements. In our sample, all bus drivers hired since the requirement came into effect in 1998 had a bus driver training course. Those drivers already employed as of 1998 were grandfathered in, however, many of them already had a course. There were four bus drivers in our sample that were hired prior to 1998 that did not have a bus driver training certificate on file. Under the School Act Regulations, the District has the authority to require a bus driver to complete a driving course.

3.22 The District provides continuing education in the form of refresher courses which vary from year to year. Both permanent drivers and substitute drivers are expected to attend. Topics include refresher driver training, student behavior management and anaphylactic and diabetic problems.

3.23 The Regulations to the School Act set out the responsibilities of the bus driver in the event of an accident. Each accident is to be immediately reported to the school principal and the Superintendent of ESD through the Transportation Supervisor.

3.24 The Eastern School District is responsible to pay for repairing damage to buses incurred as a result of collisions. The personal liability and property damage coverage is carried through the Risk Management Section of the Department of Provincial Treasury. The first $2 million is self-insured through government and the next $18 million is insured through third party insurers, for a total of $20 million coverage.

3.25 We reviewed the accident information recorded by Risk Management for the period September 2000 to September 2005. We found there were 49 accident reports filed for the Eastern School District during this period. The majority of these accidents related to minor incidents.

3.26 Since 1999 there have been four major accidents involving school buses in the ESD where serious injury or death occurred. We reviewed the documentation maintained on each of these accidents at both ESD and Risk Management. Our purpose was to determine if, given the circumstances of the accident, ESD had taken reasonable steps to help prevent a similar incident.

3.27 We found that the Risk Management Section had detailed information and reports on each accident including the circumstances and related investigations. However, information on action taken by the ESD to help prevent similar situations or to improve their response to accident situations was not clearly documented.

Recommendation

3.28 The Eastern School District should establish a well defined process whereby each accident of a serious nature would be reviewed to determine if improvements are needed to busing procedures or crisis response.

3.29 The Eastern School District has a policy which requires that a performance and developmental report be completed at least once every three years for all support staff including bus drivers. We noted that the performance appraisal reports are completed at the 80 day completion of the probationary period but are not completed after that.

3.30 We were advised that there are currently 162 drivers and that one person could not be expected to carry out performance appraisals for all of these drivers. Although the bus drivers are assigned to a base school the principals of these schools are not required to carry out performance appraisals for these drivers.

3.31 It should be noted, however, that when complaints are received about a driver they are followed up by the principal and the transportation supervisor. In our review of personnel files we noted instances where complaints were received, investigated, and disciplinary action was taken.

Recommendation

3.32 In accordance with Eastern School District policy, a standard performance appraisal process should be implemented for bus drivers.

Transportation Planning

3.33 Bus route planning involves creating and scheduling routes and stops to ensure that the system operates safely and efficiently while meeting the transportation needs of students.

3.34 The Eastern School District has in place a Board regulation on designating and evaluating school bus routes. It requires the transportation supervisor to conduct an efficiency review of all bus routes on an annual basis, based on information provided by the bus driver and principal. In addition, on a rotational basis routes are to be reviewed at least every five years.

3.35 In the ESD there are 162 active buses and we were advised that with double runs there are over 400 bus routes. The first input into route planning is accurate information on number, ages, and location of students. Late in 2001, the Eastern School District along with the Western and French Language School Boards entered into an agreement for the development of a computerized transportation management system. We were advised that 2004-05 was the first

school year that complete student data was input into the system for ESD.

3.36 When we started our audit work we expected current student data and bus schedules to be readily available. We were advised that the bus drivers are provided with a printout of their bus routes including the name of each child and location of each stop. The driver is required to update this information at the beginning of the year for new students and changes in location of students. The information is then reviewed with the principal and submitted to the transportation supervisor by October 15. We were informed that the information for each route is then checked and changes are input into the system. This is a time-consuming process and the Transportation Section advised that they do not have sufficient staff to carry out this function in a timely manner. Updating of the database for 2005-06 was not complete as of January 2006.

3.37 We selected a sample of bus routes from the system and reviewed the information provided for such factors as number of students at each stop, number of students on the bus at the end of the route, and length of time on the bus. We noted that the system cannot provide reports in response to inquiries such as the longest bus route, the route with the most students, the stop with the most students. This information is in the system but can only be accessed manually through reviewing information on an exception basis, this inquiry function would be very helpful in allowing the transportation supervisor to assess the routes as required by regulation, based on the information provided by the bus driver and principal.

Recommendations

3.38 The Eastern School District should ensure that the database of bus route information is updated each year on a timely basis.

3.39 The Eastern School District should evaluate the cost/benefit of adding an inquiry function to the Transportation Management Information System.

3.40 In recent years the Eastern School District has experienced two major impacts that have led to the redesign of a number of bus routes: declining enrollment and retiring bus drivers.

3.41 The Eastern School District has projected a decline in enrollment of 19 percent by 2019 and an 11 percent decline over the next five years. We noted that although projected enrollment figures by school are available to 2019, the Transportation Section was not using this information for route planning. As expected not all schools are projected to decline at the same rate. We reviewed the enrollment projections and noted that in the next five years there are three schools that are expected to experience a 30 percent decline in enrollment and six other schools where the decline is over 20 percent.

3.42 The retirement of a bus driver provides an opportunity for reconsideration of the routes in that area. In some cases transfers of drivers can be made with a view to reducing the number of buses in the system and improving the efficiency in an area of declining enrollment.

3.43 We reviewed the documentation maintained on the redesign of routes for the Central Queens Elementary School. There is no formally documented process for redesigning routes. However, the practice that is followed appears reasonable in terms of gathering appropriate information, obtaining input from bus drivers and principals and informing all affected parties of the revised routes.

3.44 The Eastern School District has not formalized the level of service to be provided to students. There is little guidance on what is considered acceptable wait times, and earliest pick up and latest drop off times. These issues are evaluated on a case by case basis.

3.45 In our sample of bus routes we found the earliest pick up was 7:04 a.m. and the latest drop off was 4:45 p.m. For the rural bus routes in our sample we reviewed the maximum time from pick up/drop off to school time. The average of the maximum times was two hours and fourteen minutes each day.

3.46 In some cases children are picked up early to allow the bus to make a double run. We were provided with a summary showing five buses at West Royalty School, two buses at Glen Stewart and one bus at Spring Park which arrive at the school over 30 minutes before the school day begins.

Recommendations

3.47 Enrollment projections should be used as one input in planning school bus routes.

3.48 The Eastern School District should establish guidelines for acceptable transit times, and for all students exceeding the guidelines adjacent routes should be examined to determine if there is a more appropriate arrangement.

3.49 District staff informed us that the unwritten policy is that no bus may transport more than the maximum number of students as per the manufacturer's rating. For active buses this would be 66, 70 or 72 students depending on the bus model. However, this maximum rating does not take into consideration the age or size of the child.

3.50 Compartmentalization refers to the fact that the seats are spaced and the seat backs are sized to resist occupants being thrown around in an impact. Federal standards call for high-backed seats made of energy absorbing materials to retain occupants in their place in the event of a crash. Current information from Transport Canada indicates that there are few instances where seat belts would prevent injury in school buses.

3.51 The safety features provided by compartmentalization are based on the understanding that the students are properly seated within the compartment. When senior students are traveling three to a seat not all passengers will be protected as students are seated out into the aisle. In its report the Adhoc Working Committee to Review Transportation Policy recommended that maximum numbers of students be established for school buses. Information provided by staff of Eastern School District indicated that three Provinces have

established maximum students per bus below the manufacturer's rate.

Recommendation

3.52 The Eastern School District should establish a policy on the acceptable number of students per bus based on student age.

3.53 The transportation of students attending a school for which they are not zoned is an issue that impacts the cost of transportation overall. Transporting students out of zone also impacts on the time other students spend in transit or waiting for school to begin. All students who do not attend a school for which they are zoned are supposed to apply each year to Student Services at ESD to receive approval. We reviewed the approvals for 2005-06 and found that 235 students had received approval to attend a school out of zone. There would be more than this number as not all students apply each year.

3.54 Each approval letter states it is not the responsibility of ESD to provide transportation for students out of zone. However, transportation is provided in many cases particularly where the situation has been in existence for a long time.

3.55 The extent of the additional transportation costs depends on the circumstances, in some cases it would be minimal. However, we were provided with information on nine students out of zone in Earnscliffe where the additional cost is approximately $2,300 per year to provide transportation.

3.56 Students receive approval to attend schools out of their zone for a number of reasons including to receive French Immersion or in the case of a recent zoning change, to allow members of the same family to continue in the school to which they were previously zoned. There may be many different family situations where students are permitted to attend a school for which they are not zoned. We were advised that where transportation has historically been provided it becomes very difficult to reduce or eliminate the service.

3.57 The establishment of school zones is a policy decision which is not within the control of the Transportation Section. However, the additional costs incurred for providing transportation to out of zone students has not been calculated for all cases. This is valuable information which should be available to the Board.

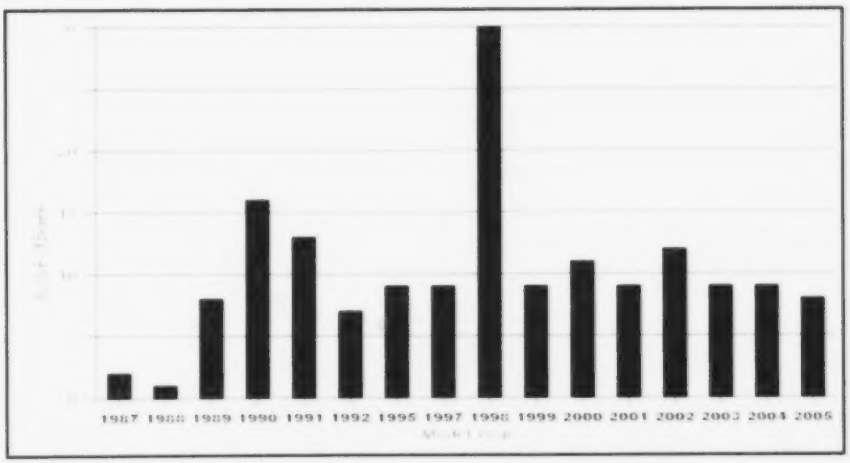
Recommendation

3.58 The additional transportation costs incurred for transporting students out of zone for each school should be calculated and provided to the Board for their consideration.

School Bus Acquisition and Maintenance

3.59 The Eastern School District maintains 162 buses operating on over 400 routes as well as spare buses for backup purposes. The age distribution of the fleet as of September 2005 is summarized in **Exhibit 3.3**.

EXHIBIT 3.3
EASTERN SCHOOL DISTRICT
SCHOOL BUS DISTRIBUTION BY MODEL YEAR



3.60 For the past number of years the four Atlantic Provinces have participated in a joint tendering process for the procurement of school buses. Representatives from the Department of Education and each school board participate on the committee to evaluate the bids. Information provided by the Department indicates the savings achieved through this joint tendering process amounts to approximately $10,000 per bus.

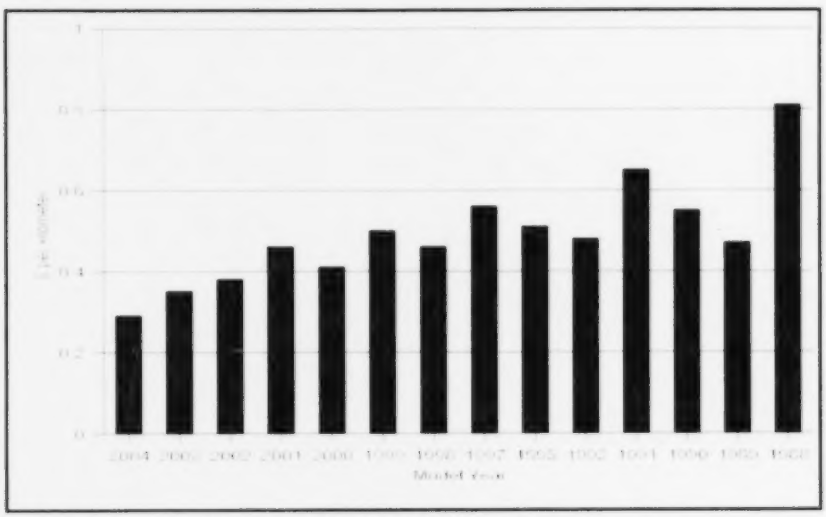
3.61 Many provinces have a maximum age for school buses of 12 years. We noted that the bus fleet for Eastern School District included 162 active buses as of September 2005 with 14 spares. Of these, two 1987 buses were still in active use. Approximately 30 percent of the active fleet was over 12 years old.

3.62 The Eastern School District receives its funding for the purchase of school buses from the Department of Education each year. For the past five years the funding provided has allowed for the purchase of nine new buses each year.

3.63 The Province's newly released capital budget includes funding for an additional two buses per year Province wide until the annual purchases amount to 24 buses up from the 16 ordered for 2006-07. We were advised that the allocation will be one extra bus in the Eastern School District and one in the Western School District for 2007-08 and after that date, the buses will be allocated based on greatest need.

3.64 We noted that the Eastern School District has projected declining enrollment and is reducing the number of active buses through redesigning routes where possible. This coupled with an increase in the number of new buses purchased each year should assist in improving the average age of the fleet. However, it is projected that with the distribution of the age of the buses, and additional new bus purchases increasing by one per year for the ESD, in the year 2010 there will still be over 20 percent of the fleet 12 years of age or older.

EXHIBIT 3.4
OPERATING COSTS PER KILOMETER*
2004-05
BY MODEL YEAR



*Source: ESD Vehicle Cost Report

3.65 As indicated in **Exhibit 3.4**, as buses age the operating costs generally increase. Comparison of operating costs for buses of different ages was carried out but there is no complete analysis of repair versus replacement. A study conducted in 1995 by an outside consultant, for the Department of Education, indicated a savings in maintenance costs of $225,000 per year by setting a maximum useful life of 12 years. The Treasury Board approval for the tender for buses to be delivered in 2006-07 included a request that a rationalization of the fleet and bus schedule be prepared by the Department of Education with a view to ensuring maximum use and efficiency. At the date of our field work this analysis had not been completed.

Recommendation

3.66 The Department of Education should establish a long term plan for school bus acquisition which considers the cost/benefit of maintenance versus replacement as well as the optimum size of the bus fleet.

3.67 School bus maintenance is carried out at two depots one in Charlottetown and one in Cardigan. It is ESD practice to carry out a maintenance check at 2,500 kilometers and 7,500 kilometers and carry out a brake pull, where the complete drum is removed, every second year. In addition there are emergency repairs and occasional rust treatments.

3.68 We found that the 2,500km and 7,500km checkups are scheduled but are not always conducted at the required intervals. If the 2,500km check is past due they may wait and bring the bus in for the 7,500km check. We noted that 46 of the 7,500km checkups were past due at the Charlottetown Depot at the beginning of October. By October 24th these had been reduced to 30.

3.69 The District depots are motor vehicle inspection (MVI) stations and are licensed under the Highway Traffic Act, Motor Vehicle Inspection Regulations. Highway Safety Division visits the depots approximately every two years to check that standards are met.

3.70 The intention of the District was to carry out MVIs twice per year which was more frequent than the annual inspections required by the Motor Vehicle Inspection Regulations in place for the period covered by our audit. More frequent inspections were planned for improved safety and also because the District was aware that revisions to the regulations were pending which would require more frequent inspections of school buses. The regulations were subsequently revised effective December 31, 2005.

3.71 During our audit we noted that inspections were not completed every six months but were completed at least annually. Various reasons were given for not meeting the intended schedule such as shortage of staff, priority given to repairing buses to get them on the road and shortage of spare buses. The Charlottetown depot was usually on target or within a few months of the six-month target. The Cardigan depot was closer to yearly.

3.72 In June of 2005, at the request of ESD, the Department of Transportation and Public Works conducted a structural inspection on older buses in the fleet. We were advised that the depots can keep the buses on the road mechanically but it is structural deficiencies which result in safety concerns in the event of an accident. Forty-one older buses were inspected and ten buses were identified as having serious structural problems. These were further inspected by a structural expert and seven were placed out of service as beyond repair. It is not clear whether these would have been taken off the road under the normal process of decommissioning.

Recommendations

3.73 Routine maintenance checks should be carried out as scheduled.

3.74 Given the age of the bus fleet, the Eastern School District should continue periodic inspections of the structural integrity of its older buses to confirm their safety.

3.75 In general, the bus driver is to report any vehicle safety issues to the depot based on daily inspection/operation and the foreman is responsible to determine whether the bus is safe to operate. Buses are either repaired as soon as necessary or at the next scheduled maintenance check if the problem is not critical.

3.76 When work is carried out on a bus as a result of routine maintenance, MVI, or an emergency repair, a work order is completed. The work order includes a description of the problem and the parts and labor used. These work orders are entered into the ESD's management information system which accumulates the operating and maintenance costs per bus.

3.77 We reviewed the process for acquiring bus parts. We found that a portion of bus parts are salvaged from old buses that are held for that purpose. A portion of the parts are sole sourced because they are unique to specific engines and are purchased from the PEI dealer for that product. A large selection of parts are tendered annually. For the tender issued in April 2005, eighteen responses were received

ranging from a broad number of parts, to a single item. The lowest price was generally taken and each successful company was given a list of parts it was selected to supply with prices to be maintained for the year.

3.78 The Eastern School District carries an inventory of bus parts valued at approximately $420,000. In addition a large percentage of parts is obtained from old buses. These used parts are not recorded in the management information system and are not valued.

3.79 New parts are maintained using an automated inventory system which records purchases at average cost and usage as work orders are posted. A physical inventory count is carried out at June 30 and the count results are compared to the inventory records.

3.80 The year end count for June 2005 resulted in approximately $37,000 in write-downs, almost all at the Charlottetown depot. Larger items with discrepancies were tires and a rebuilt transmission.

3.81 We carried out a spot check of the inventory in October and found a number of discrepancies from the inventory records. The largest dollar value was in the tire inventory. We noted a shortage of 29 tires at the Charlottetown Depot. When we traced the work orders to the management information system we found numerous input errors. We also noted that the tire inventory is not secured but is stored in the compound where accessability is not tightly controlled. In addition, we noted that there is inadequate division of duties at the Charlottetown Depot as one person is responsible to order inventory, receive goods, record the purchase orders and record the work orders indicating the parts used.

3.82 We realize that approval has been received for the school bus maintenance function to be transferred to the Department of Transportation and Public Works. How future operations will be carried out has not been fully determined. It is important that the weaknesses identified be addressed under the new operating process.

Recommendation

3.83 The Eastern School District should ensure that the weaknesses in division of duties at the depots, accuracy of the management information system, and control over parts inventory are addressed under the new government structure for bus maintenance operations.

3.84 Alternative transportation consists of two types, transportation provided to students who cannot travel on a school bus due to mental or physical disabilities, and extra curricular transportation which is acquired to provide travel for school trips or sporting events. The total cost of contracted transportation was $212,000 for 2004-05. The amount charged for extra curricular transportation amounted to approximately $74,000.

3.85 Transportation is contracted for students who have been approved by student services as requiring alternative transportation. We were advised that these contracts are not tendered because there are few people in the business. In addition the students and parents develop a relationship with the contractor and are reluctant to change. There is a standard contract which is signed and specific requirements are in place to determine the qualifications of the transporter.

Student Training

3.86 Training students in the proper procedures around and on school buses is critical for their safety. The principal of each school is responsible to ensure that the Code of School Bus Conduct is reviewed with students each year, that emergency evacuation exercises are carried out and disciplinary action is taken where necessary.

3.87 The Eastern School District regulations require that two emergency evacuations be carried out each year for each school bus. These exercises are important to ensure the organized and efficient evacuation of school buses in an emergency. Our interviews with bus drivers and principals indicated that these safety requirements are followed.

MANAGEMENT RESPONSE

3.88 Our report was discussed with management and a written response will be prepared.

4. EAST PRINCE HEALTH - SENIORS SERVICES

BACKGROUND

4.1 Government provides a number of services to senior citizens across the Island including the following:

- institutional care provided in government operated facilities;
- subsidization of institutional care provided in private nursing homes;
- regulation and licensing of private nursing homes;
- home care and palliative care; and
- administration of senior citizen housing units.

4.2 For the last eleven years the delivery of many of these services has been administered by a regional health authority. In the April 2005 budget, government announced the restructuring of the Department of Health and Social Services and the elimination of East Prince Health as a separate entity. Changes are being made in the lines of authority, administrative responsibilities, and legislation, related to the services and programs that were delivered to seniors under East Prince Health.

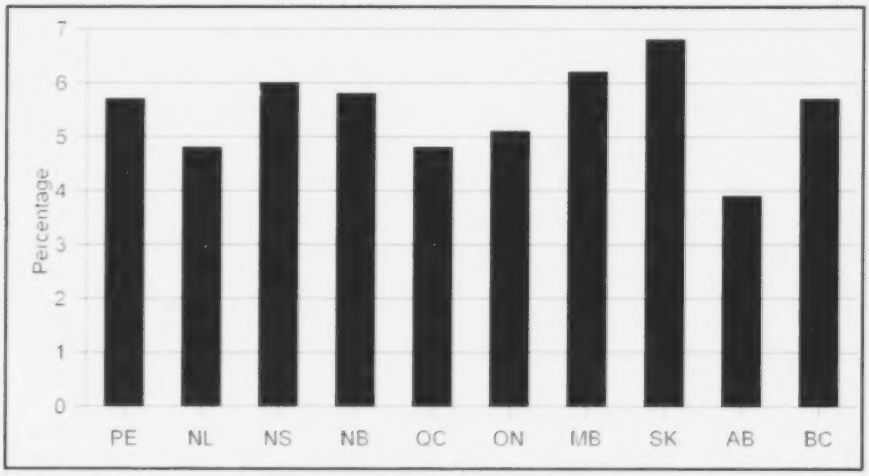
4.3 Our work resulted in a number of observations and recommendations for improved planning and management of seniors services. Although they arose from work carried out in East Prince Health, these recommendations are relevant for the future delivery of services to seniors in the restructured system involving both the Department of Health and the Department of Social Services and Seniors.

4.4 Demographic analysis indicates that the baby boomers are reaching an age where they will be accessing seniors services. At the same time life expectancy has increased due to improved health care. The result is a growing number of senior citizens in general and therefore a growing demand for seniors services. Population statistics indicate that the proportion of PEI population over 65 is currently 14 percent and is projected to increase to 25 percent by 2026. The PEI proportion of population over age 65 is consistently higher than the Canadian rate. As a result it is predicted that the demand for health

care services such as acute care, long term care, home care, and geriatrics care will rise.

4.5 **Exhibit 4.1** indicates the percentage of population age 75 and over in each province based on the 2001 census.

EXHIBIT 4.1
PERCENTAGE OF POPULATION AGE 75 AND ABOVE
2001 CENSUS



4.6 East Prince Health provided services to seniors through four key program areas. **Exhibit 4.2** provides actual program expenditures for the last four years excluding allocated administrative costs.

EXHIBIT 4.2
EXPENDITURES BY PROGRAM
($ MILLIONS)

	2005	2004	2003	2002
Long Term Care: Public & Private Nursing Homes	10.68	10.64	10.08	9.47
Stewart Memorial Hospital	2.06	1.92	1.73	1.78
Home Care	2.01	1.71	1.60	1.50
Seniors Housing	1.30	1.57	1.52	1.27
TOTAL	16.05	15.84	14.93	14.02

4.7 The Home Care program provides service to seniors as well as mentally or physically challenged individuals who require home supports in order to prevent institutionalization. At the time of our audit work, approximately 78 percent of the home care caseload was seniors. Stewart Memorial Hospital is a community hospital which includes both acute care and long term care services. For the other two programs substantially all services were to seniors with a few exceptions.

OBJECTIVES AND SCOPE

4.8 In accordance with Section 13 of the Audit Act, we conducted an examination of the management of services to Seniors through East Prince Health. Our objective was to determine if appropriate management practices and controls were in place over the services provided for placement in long-term care facilities, management of home care, management of seniors housing units, operation of public long-term care facilities and licensing of private nursing homes.

4.9 Our audit work examined the planning for various seniors services in East Prince, the management of placement in long-term care facilities, facility maintenance, and delivery of nutritional and environmental services within facilities. We reviewed the process for licensing of private nursing homes and community care facilities as well as the management and delivery of home care services in the region. In addition, we reviewed the financial expenditures and

processes in place to manage staffing needs within the government owned facilities.

4.10 We performed our examination in accordance with the standards for assurance engagements encompassing value for money, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Planning For Seniors Services

4.11 With a well documented projected increase in the population of seniors, comes a projected increase in the need for services to this segment of the population. We looked for government to have a strategy in place to meet the growing needs of seniors province wide.

4.12 In 2004, a discussion paper commissioned by the Department of Health and Social Services was completed on Long Term Care Services on PEI. The paper described the status of services to seniors and identified the major issues affecting the delivery of services in the future. The report was presented in draft in January 2004, to senior management of the Department and the Regional Health Authorities but it was never formally approved or endorsed by government. We were advised that the process of program renewal was being considered and senior management anticipated significant changes to the health care sector. As well, the recommendations in the report were broad in scope and affected the Department of Health and Social Services, the regions, and other departments.

4.13 The report was not adopted and endorsed as a plan or strategy for seniors services, however, a number of issues identified in the report have been acted on. While the report is titled long term care it addresses many issues which affect the extent of service to be provided to seniors in the future.

4.14 A clearly documented government strategy for seniors services would set out a framework for providing services to seniors. It would enable government to be proactive in meeting the projected needs rather than reacting when a situation becomes critical. It would also assist government to plan for the extent to which these needs are satisfied by direct government services versus private sector interests.

4.15 Planning concerns are raised under various headings such as Long Term Care, Public Nursing Homes, Home Care, and Seniors Housing Units. A strategy on seniors services would establish broad direction with specific plans developed for major service areas.

Recommendation

4.16 The Department of Social Services and Seniors in conjunction with the Department of Health should develop a long term strategy for seniors services which addresses the projected future needs and considers current best practices.

Long Term Care

4.17 Long term care is a system of integrated programs and services designed to provide care and support for people with continuing functional disabilities and chronic illnesses. Long term care includes assessment, case management, placement and care in either a publicly operated manor or a privately owned nursing home.

4.18 In East Prince there are two manors and one community hospital, which includes 12 long term care beds. In addition there are two privately owned nursing homes which also provide services to seniors in East Prince. **Exhibit 4.3** illustrates the public and private nursing homes and the number of beds in each facility.

EXHIBIT 4.3
EAST PRINCE
LONG TERM CARE

Type of Facility	Location	Number of Long Term Care Beds
Private	Clinton	25
Private	Crapaud	27
Public	Summerside/ Wedgewood Manor	75
Public	Summerside/ Summerset Manor	81
Public	Tyne Valley/Stewart Memorial Hospital	12
		220

4.19 Long term care is not an insured service on Prince Edward Island, meaning that individuals placed in long term care facilities are expected to pay for the cost of their care. A financial assessment is conducted as part of the admission process and residents are admitted as self-pay until their eligible assets are exhausted at which point they are subsidized under Part II of the Social Assistance Act. However, even when they are subsidized at the long term care facility, the cost of care for each resident is accumulated and billed to their estate at the time of their death in the event that additional assets are available through the estate. Each individual is subsidized based on a daily rate established for the facility by the Province less the resident's actual monthly income paid toward their cost of care.

4.20 Prince Edward Island is one of only two provinces in Canada where residents are expected to exhaust their resources before any part of their institutional costs are subsidized. The other provinces have moved to a separation of the room and board component of long term care, which is the responsibility of the individual, and the care and treatment component which is the responsibility of the provincial jurisdiction.

4.21 The number of residents who have exhausted their eligible assets and require subsidization is high. The level of subsidization in public manors is in the area of 79 percent of residents and in the private nursing homes approximately 65 percent.

4.22 We were advised that preliminary work has been carried out to estimate the affect on the Provincial budget of adopting the approach followed by most other provinces with a separation of the room and board component and the care and treatment component. At the time of our audit there had been no formal evaluation of the impacts of this approach for the Province.

Placement in Long Term Care

4.23 We found that the process for placement in nursing homes is carefully managed. All placements are made through a central placement committee. The committee meets approximately every two weeks and considers the applications for individuals who are requesting placement either through the hospital or from home. The discharge planner for the Prince County Hospital (PCH) brings forward names of clients in hospital who are ready to be discharged to long term care. The home care nurse or social worker brings forward the clients who are at home waiting placement from home care. In all cases an assessment is performed and the level of care is established.

4.24 Each person requesting placement in a long term care facility is required to be assessed using a standardized assessment tool referred to as the Seniors Assessment Screening Tool (SAST). This tool is used across the Province in both public and private nursing homes. The tool is considered effective in terms of ranking individuals based on level of care and functionality for placement. It is the policy of the Department to accept candidates for admission who are assessed at a level 4 or 5 as determined by the SAST.

4.25 At the placement committee meeting cases are discussed and the clients are placed on the list in order of the date they were considered by the committee, and by preference for specific facilities. A waiting list is developed for each facility for females and for males.

If a bed becomes available before the next meeting the committee members will be contacted and, if circumstances have not changed, the bed will be offered to the next person on the list.

4.26 We were advised that when it is determined that a person in hospital requires long term care, efforts are made to discharge the patient out of the acute care hospital as quickly as possible in order to free the bed for acute care use. The Committee tries to balance the needs of people waiting in the community with those waiting in the hospital. The Department has a "first available bed" policy which means that the vacancies in long term care facilities are monitored and if an individual is waiting in an acute care hospital for discharge to a long term care facility they are to be discharged to an available bed even though it may not be in a facility/location of preference. The person is to be placed on a transfer list and receive a bed in the facility of their choice based on their priority with the placement committee.

4.27 We selected a sample of placements made during the 2004-05 year. At the date of our field work there were 19 people on the waiting list for long term care placement in East Prince Health and 8 people on the transfer list.

4.28 When an individual is listed as a priority for placement in long term care, a financial assessment is conducted. It includes reviewing bank records, tax returns, a property search and other supporting documentation. Clients are either determined to be eligible for subsidization or they are self pay clients.

4.29 The self pay clients in public manors are required to pay $123 per day for level 4 care and $132 for level 5 care. These self pay residents are billed monthly for their care and the revenue received is recorded by the administrative staff at each manor. We examined the billings for each facility and noted that Stewart Memorial bills residents in advance while Summerset and Wedgewood bill at the end of each month.

4.30 The rates of $123 and $132 per day are established by Executive Council. The rate was set many years ago and has received periodic increases. However, the rate is not specifically related to the actual costs of providing the services. The direct operating costs for the Wedgewood and Summerset manors for 2004-05 amounted to approximately $170 per resident per day.

Comfort Allowances

4.31 Under the Social Assistance Act Regulations the regional authority may grant additional assistance, called a comfort allowance, to a person in need who resides in a nursing home. The comfort allowance is intended to cover items of personal use and typically is used for clothing, newspapers and sundry items.

4.32 The Long Term Care Policy - Comfort Allowance Nursing Home states:

> *The balance in an individuals comfort allowance is not to exceed $300. When the balance is less than $300 the maximum monthly allowance up to $103 may be obtained by the operator on behalf of the resident.*

4.33 The comfort allowance received and dispersed for each resident is recorded and the balance is held in trust by the manor. We reviewed the accounting records for the comfort allowances at each facility. We noted that Wedgewood and Stewart Memorial provide each subsidized resident with a comfort allowance of $103 per month or a lesser amount to top up their account to $300. At Summerset no comfort allowance is recorded unless the resident's account is below $197.

4.34 We noted two residents at Wedgewood Manor and two residents at Summerset Manor were not provided a comfort allowance even though they were subsidized clients.

4.35 The Social Assistance Act Regulations state in Section 39(6):

Where the amount in an applicants trust account is equal to or greater than $300, the regional authority shall credit further comfort allowance funds to the nursing home fees payable on behalf of the applicant until the balance in the applicant trust account falls below $300.

And further in Section 39(7) the regulations state:

Where an applicant dies leaving a positive balance in a trust account, the administrator shall credit that balance toward the nursing home fees payable by the applicant.

4.36 We noted that these regulations are not being followed. The regulations provide that unused comfort allowances be applied to nursing home fees payable. However, when a resident, of either a public or private nursing home, has $300 or more in his comfort account he does not receive any further comfort allowance and there is no record kept of the amount he could have received to be applied to any outstanding nursing home fees.

4.37 Further, when a person dies at Wedgewood Manor or Summerset Manor they are billed for the nursing home fees plus the comfort allowance they received and at Stewart Memorial they are billed for the nursing home fees only. Similarly, if a person in a private nursing home dies they are billed only for the per diem rate paid to the private nursing home on their behalf and not the comfort allowance paid.

4.38 When we reviewed the comfort allowance accounts at Stewart Memorial Hospital, we found that the balance recorded in the residents' trust accounts did not reconcile to the bank account and the cash on hand. Management have since taken steps to reconcile the accounts and address the shortfall.

Recommendations

4.39 The long term care policies should be followed and the comfort allowance should be consistent for all manors.

4.40 The regulations regarding the provision of a comfort allowance to persons in need should be followed.

4.41 The regulations regarding the use and application of comfort allowances should be reviewed. The billings to estates should be consistent for all nursing homes.

4.42 Resident's trust accounts at Stewart Memorial should be reconciled on a regular basis.

Public Nursing Homes

Staffing

4.43 In carrying out our work on long term care services provided to seniors in East Prince, we examined the level of staffing in public manors as a component of the level of care provided in those facilities. A standard has been established for the number of hours of daily personal care provided to each resident based on the level of care determined by the Seniors Assessment Screening Tool. Residents ranked as level 4 care require 3.5 hours of personal care per day and residents ranked as level 5 care require 4.5 hours of personal care per day.

4.44 We were advised that the standard was historical and has been used across the province as the standard of care in provincial manors. However, the standard is not supported by documentary evidence indicating for example, how long it actually takes to provide personal care to each resident. In addition, there is no breakdown of the extent of service which should be provided by different types of staff such as nursing staff (either Registered Nurse or Licensed Practical Nurse)and resident care workers.

4.45 Further, we found that the manors were not staffed to meet the standard due to budget constraints. Management was periodically calculating the staff levels actually achieved compared to the staff levels required by the standard to quantify the staff shortage.

4.46 As previously noted, Stewart Memorial Hospital (SMH) is a community hospital which provides both acute care and long term care. We treated the 12 long term care beds as essentially a publically funded manor. We reviewed the staffing used to provide service to the 12 long term care residents at SMH. The standards provided for the other manors are not used at SMH. Rather, a workload measurement model that is typically used in acute care is used at SMH and modified for the long term care residents. Monthly reports are prepared showing the staffing required compared to the actual staffing. This report shows an even more dramatic staffing shortfall than when the standard for the manors is used.

4.47 Currently staff scheduling is primarily based on a target for each manor which defines the number and position type by shift, however, the target does not relate to the standards for level of care. In general, both the manors staff to a daily target and costs are managed close to budget.

4.48 Staff scheduling is done manually which limits the ability to monitor or report results for management purposes. In manors 24 hour coverage is required and relief workers are used for vacations, sick or other leave time. We reviewed the manual system, which is cumbersome and requires duplicate entries for scheduling and payroll functions.

Recommendations

4.49 A workload measurement standard should be developed which defines minimum levels of care for residents of nursing homes. The standard should be supported by a breakdown of the extent of care to be provided by nursing staff and other staff. Staffing budgets should be established to meet this standard.

4.50 The Department of Health should investigate the feasibility of computerization to reduce the duplicate manual entries required in staff scheduling.

Incident Reporting

4.51 The risk manager in East Prince Health in conjunction with risk managers in other regions, developed a process for reporting incidents which occur in public manors. Because of the nature of the services provided, there will be situations where residents and staff of manors are at risk of injury. The intention of the reporting process developed was to provide consistent, reliable information so that management could identify trends and risks, and take appropriate action.

4.52 A data base was developed for recording all incidents by date, facility, type of incident and resident involved. This process was implemented in March 2004. The intention is to develop benchmarks over time and allow comparisons to incident rates in other facilities across the Province.

4.53 A summary report prepared for the senior management team of East Prince Health covering April to December 2004, indicated that a number of falls occurred in the long term care facilities but no serious injuries resulted. We found that during that time period, two fractured hips were sustained by the residents. We were advised, after follow up, that these injuries were diagnosed after the initial incident report was completed and therefore, were not recorded by the incident reporting process and not reported to senior management.

Recommendation

4.54 The reporting process for incidents should be revised to ensure subsequent diagnosis of injuries is reported.

Facilities Plan

4.55 In East Prince long term care is provided through two public manors; Wedgewood and Summerset, as well as the Stewart Memorial Hospital. Summerset Manor was constructed in the 1950s and the 2004 Long Term Care Services Report indicated that the facility is functionally and physically obsolete. The facility design does not meet the needs of the current residents and impacts on staffing levels due to the facility layout.

4.56 Although there is a projected increase in the seniors population for Prince Edward Island this does not necessarily translate into an increased need for institutional beds because needs may be met by increased home care resources and increased supported living arrangements. However, there will still be a need to provide long term institutional care to some extent.

4.57 As manors age ongoing repairs will become uneconomic. Although East Prince Health has a prioritized list of planned major capital repairs, an orderly replacement of deteriorating buildings such as Summerset Manor has not been developed. It is essential that senior management consider what level of long term care is needed and plan to meet the significant capital investment required to ensure facilities are in place to meet these needs.

Recommendation

4.58 A capital replacement plan should be developed based on an assessment of the future needs for long term institutional care and the age and condition of existing facilities.

Private Nursing Homes

4.59 The Community Care Facilities and Nursing Homes Act establishes the Community Care Facilities and Nursing Homes Board which is mandated to license and inspect these facilities. The regulations to the Act and the guidelines established by the Board set out requirements which must be adhered to in order for a facility to

receive or renew a license. Licenses are granted for one year and inspections are carried out annually prior to renewal of the license.

4.60 The Act does not give the Board authority to fine operators of community care facilities or nursing homes but it does allow the Board to suspend, revoke or impose restrictive conditions on the license. If the conditions go beyond 30 days, without corrective action, the Minister may issue an order to impose an admissions freeze. If the conditions go beyond 60 days the Board may refuse to renew the license and take the necessary steps to relocate the residents.

4.61 We reviewed several private nursing homes and community care facilities files. We found documentation to indicate that a detailed inspection process is carried out each year in accordance with the requirements of the Act and regulations.

4.62 Central placement committees have been established in each region and all placements whether in private nursing homes or public manors must go through the placement committee. The placements are carried out based on the preference of the resident for a particular facility and the availability of beds. The ability to pay is not a factor in the placement decision.

4.63 If a resident is placed in a private nursing home and they do not have sufficient resources to pay for their care, they are subsidized under Part II of the Social Assistance Act. The private nursing home submits a monthly claim for the number of residents approved for subsidization.

4.64 The per diem rates paid to private nursing homes are not specifically tied to operating costs but were established and have received adjustments from time to time resulting from negotiations between the Province and the Nursing Home Association of PEI. The subsidized rates are established based on the level of care required by the resident. The rates were recently increased effective April 1, 2005 as follows:

- Level 4 from $109.50 per day to $118.50 per day; and
- Level 5 from $119.50 per day to $131.50 per day.

4.65 The private nursing homes can set their own rate for self pay residents. According to information provided by the Department these daily rates range from $109.50 to $161.06. In addition, self pay residents pay for extra services such as occupational therapy, physiotherapy, medical/surgical supplies, some medications, and equipment.

4.66 We obtained the monthly claims submitted by each private nursing home in East Prince for the 2004-05 year. The monthly claims include the per diem cost for each subsidized client plus their comfort allowance less any revenue received from the client such as old age security or the guaranteed income supplement, to arrive at a net cost per client. In addition, there is a lump sum amount charged for sundry medical supplies and over the counter medications.

4.67 We verified several payments to each home and reviewed the charges for comfort allowance for each subsidized client. We found that for one private nursing home the amounts charged to the Province for the cost of comfort for each resident varied and appeared to be the amount required to top up the balance to $300 as required by regulation. However, the other private nursing home charged $103 per month for each resident. We were advised that the private nursing home indicated the total amount is spent each month.

Recommendation

4.68 The Department of Health should periodically verify the amounts billed by private nursing homes for residents' comfort allowances.

Home Care

4.69 The Home Care Program is designed to assist clients to remain in their own home and prevent or postpone institutional care. The program consists of a number of services, some or all of which may be provided to home care clients. The services include:

- Assessment - to determine eligibility and identify the needs to be addressed.
- Case management - to identify services to address the needs either provided by home care or other services within the region.
- Professional services - nursing care, occupational therapy, physiotherapy, and nutrition services.
- Support services - personal care, caregiver respite, home environment support, and adult protection.

4.70 In the past a large portion of the Home Care Program consisted of providing home support in the form of a visiting home maker service. There has been a move away from providing this service because of limited resources and the fact that this service is available through the private sector. A number of clients who had received this service were grandfathered in but for new clients seeking housekeeping service they are referred to the private sector.

4.71 In May 2005 there were 397 open cases in the Home Care Program at East Prince Health. Of these, 308 were seniors receiving service. We examined a number of files across various services provided to determine if there was a case plan for each client and a record of the services provided to each client. We found that many cases are home care nursing only in which case there is a doctor order sheet, medical profile, and medical notes on each visit. For the home support worker file there is a case plan established for each client and notes on each visit indicating the services performed, any issues with the client and client concerns.

4.72 At the time of our audit there were no formally approved policies for home care. There was a policy manual for the PEI Home Care Support Program which was dated March 2001 and was still in draft. It included policies for eligibility, and type and level of service that can be provided for various aspects of the program. We were advised that the policy manual was in the process of being finalized in the Summer of 2004 but it was put on hold awaiting budget approval for program changes which were then postponed due to the program renewal/health sector restructuring.

4.73 The draft policy manual indicates the frequency of assessments required and states that for home care the assessment should be performed on admission, annually, or as required based on health status change or alternate setting/placement consideration. In reviewing a number of files we found three cases where the assessment was not completed within the 2004 or 2005 year.

4.74 The key financial component for the region is the staff costs. We noted that the caseload per home care support worker was quite consistent across the other regions of the Province whereas the caseload per home care nurse was high in East Prince compared to Queens region. We found that the manager for home care was managing staff costs close to budget. The number of overtime hours used was low.

4.75 We reviewed information to assess the adequacy of the program budget to meet the demand for service. We were advised that at the time of our field work there was no waiting list for home care. However, the nature of the program is that the request for service needs to be addressed as quickly as possible. We found that management adjusted the level of service provided to meet as many needs as possible. In addition to adjusting the level of service, we were also advised that there have been adjustments to the types of services covered in East Prince. For example, the home care nursing in East Prince did not provide service for intravenous antibiotics although this service was provided in Queens Region. In summary, the level and type of service provided by the program are adjusted to stay within the constraints of the budget.

4.76 The nature of home care is that it is a very personal and individualized service. We looked for East Prince Health to have some measure of the satisfaction of the clients with the program. We found that a survey of clients was conducted in July and August of 2004 as part of a provincial initiative to evaluate the effectiveness of the program and allow for regional comparison of results. A standardized survey instrument was developed and a random sample of 160 surveys were distributed. The overall satisfaction rate was 93.4 percent. In addition, the Home Care Support Program was one area that was included in the recent accreditation process in the region and

the PEI Integrated Palliative Care Program was named by the Health Council of Canada as one of six best practices in Canada.

Recommendations

4.77 Policies for the Home Care Program should be formally approved and followed.

4.78 Home care clients should be reassessed at least annually and more often where the service is temporary.

4.79 Consistent service levels for home care should be provided across the Province.

Seniors Housing Units

4.80 There are 309 seniors units located in East Prince. These units are owned by the PEI Housing Corporation but the responsibility for property maintenance and administration for screening of applications and placements rested with East Prince Health. The annual repairs and maintenance costs for the East Prince Seniors Units amounted to $1.3 million in 2004-05. **Exhibit 4.4** indicates the location of the units and the number of units rented at each location as of May 2005.

EXHIBIT 4.4
SENIORS HOUSING UNITS
EAST PRINCE HEALTH
MAY 2005

Location	Number of Units	Number Rented
Summerside	152	141
Kensington	50	39
Borden	22	22
Miscouche	18	12
Abrams Village, Mt Carmel, Wellington	33	22
Tyne Valley	11	8
Wilmot, Bedeque	12	9
Kinkora	11	2
TOTAL	309	255

4.81 Many of these units were constructed in the 1960s and 70s and the funds for capital maintenance have not been adequate to keep up with the required repairs. In 2000, the Department of Transportation and Public Works carried out a review and estimated that the capital maintenance requirements for East Prince were $2.1 million. East Prince Health received approximately $175,000 over two years to address these needs. We were advised that the demand for these units is low in rural areas. Struggling under the burden of maintaining many of these facilities some of which were vacant, the region initiated a process for closing and in some cases tendering for sale under-utilized units.

4.82 In 2004 the Department of Health and Social Services made a presentation to the Executive Council Strategic Planning Committee on Community and Social Policy. The Department was looking for direction on what action should be taken with seniors housing units across the Province. The presentation indicated that there is a projected need in general for seniors housing in the future but that the immediate need is for social housing. The major capital repairs

identified for seniors units across the Island amounted to $5.8 million of which the Federal government could fund up to $3.4 million under CMHC agreements. A decision was made to renovate the Kinkora Housing Units as a pilot project with funding spread over three phases.

4.83 Five units in Kinkora had phase one of the renovations complete as of March 2005. Of the five, three were rented as of August 2005. The funding for phase two and three, of this project, was not identified. Community approval is required in order to rent the units to tenants other than seniors.

4.84 We noted that the Kinkora renovation was approved as a pilot project but at the date of our audit there was no evaluation or indication of the implications for the seniors units in other communities.

4.85 We were advised that private sector interests have developed seniors housing units in some communities. The availability of private sector options in some cases makes it more difficult to rent the government owned seniors units. Where this is the case a needs analysis should be conducted to determine if there is sufficient demand to warrant renovations and upgrading of government owned units in those communities.

4.86 In East Prince Health placements were offered to 40 new tenants during the year almost half of which were in Summerside. The wait list at March 2005 totalled 41 of which 33 had a preference for Summerside.

4.87 When created, the program's purpose was to provide housing to low and moderate income individuals unable to maintain or obtain housing through their own resources. The program required both a need for housing and a financial limitation. We reviewed a number of applications. We found that all applications had detailed documentation on file including a signed declaration of assets and income and an assignment of points used to rank the priority of the applicants. However, for a number of applicants we found that the requirement for both a core housing need and a financial need was

not always applied as indicated in the policy. We were advised that, particularly where units are vacant, the practice has been to offer placement on either a core housing need or a financial need as defined in the policy.

Recommendations

4.88 A detailed plan should be developed for the seniors units in each community based on a needs assessment and taking into consideration the current availability of reasonably priced private sector housing in the area.

4.89 The plan for seniors housing should address whether the units should be put up for sale by tender or renovated and upgraded.

4.90 A multi-year capital budget should be developed to provide for the renovations and capital repairs as approved in the detailed seniors housing plan.

4.91 The Department of Social Services and Seniors should examine the current practice for placement in seniors housing units to ensure it still meets the program objectives.

Laundry Services

4.92 Prior to the construction of the new Prince County Hospital, laundry services for the hospital and the manors in Summerside were provided through a combination of in house services and contracting out. The annual budget for laundry services was approximately $750,000. With the construction of the new hospital there was an opportunity to re-examine the acquisition of laundry services for the manors in East Prince.

4.93 In 2000 a study was commissioned by Queens Health Region to examine the feasibility and estimated cost of expanding the laundry facilities at the Queen Elizabeth Hospital (QEH) to handle the linens from the new Prince County Hospital and the two manors in Summerside. The total annual operating costs for processing

institutional linens from East Prince at QEH was estimated at $508,000.

4.94 A decision was made by Executive Council in 2002 that it would be inappropriate to transfer the laundry services from East Prince to Queens Region and authorized the Minister to compare the costs and benefits of establishing a laundry service for the Region in Slemon Park or Kensington and to select the site considered most appropriate. Both of these sites had been suggested as possible sites for a regional laundry.

4.95 The Slemon Park location was initially reviewed by a consulting firm and later the Kensington location was added as a possible site and capital fit up cost comparisons were carried out. The two locations were considered roughly equal in terms of both capital and operating costs. The decision was made to locate in Kensington.

4.96 **Exhibit 4.5** illustrates the capital and operating cost estimates compared to actual for the new facility.

EXHIBIT 4.5
EAST PRINCE REGIONAL LAUNDRY
CAPITAL AND OPERATING COSTS
COMPARISON OF ACTUAL TO ESTIMATE
($000)

OPERATING			*CAPITAL*		
Annual Costs	***Budget***	***Actual 2004-05***	***Initial Costs***	***Estimate***	***Actual***
Staffing	461	459	Linen	110	120
Supplies, operating	124	310	Equipment	446	488
Rents	74	68	Fit Up	348	396
Total	**659**	**837**	**Total**	**904**	**1,004**

4.97 Capital costs were $100,000 higher than estimated including some equipment and fit up costs. Ongoing operational costs are $180,000 higher than budget. The main difference is higher fuel costs, particularly propane, which was budgeted at $8,000 annually but costs $130,000 annually.

4.98 When the project was approved to proceed in 2002, limited capital funding was available. The initial approval was based on projected operational savings being available to finance the capital costs for construction and fit up. Because the anticipated savings could not be realized, other funding sources had to be identified. Senior management made a decision to expense $200,000 against deferred revenue, obtain $425,000 through East Prince Health operations and finance $375,000 of leasehold improvements through a lease arrangement at 9 percent interest. Other government entities were borrowing from the Province at that time at 6.6 percent. If the financing had been provided by the Province there would be a potential savings of approximately $45,000 in interest over five years.

4.99 The construction, fit up and operation of a regional laundry was a significant decision with substantial capital and operational implications to East Prince Health. After the site was selected there were no documented submissions made to Treasury Board or Executive Council indicating expected costs and funding sources.

Recommendation

4.100 When a capital project is carried out, a detailed submission including estimated cost and financing arrangements should be presented to Treasury Board.

MANAGEMENT RESPONSE

4.101 The report was discussed with management and a written response will be provided.

5. LIQUOR CONTROL COMMISSION

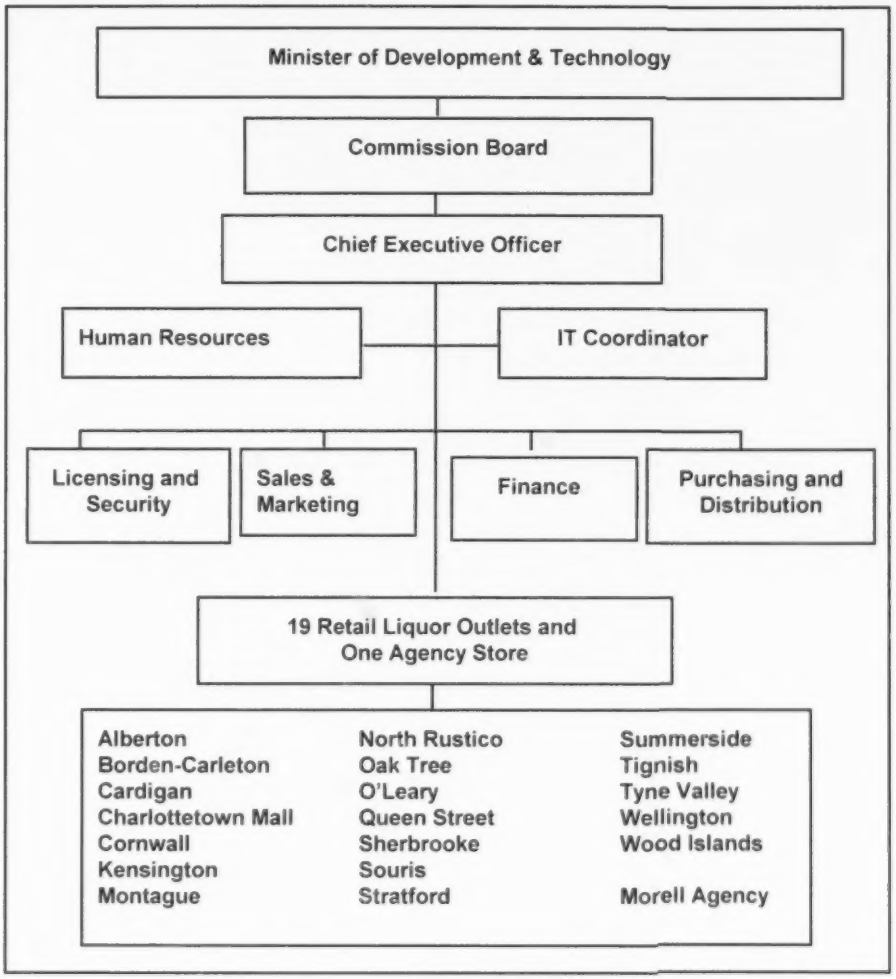
BACKGROUND

5.1 The Prince Edward Island Liquor Control Commission is a Crown corporation responsible for the administration of the Liquor Control Act and Regulations. It is responsible for the purchase, control, distribution and sale of alcoholic beverages in Prince Edward Island.

5.2 A five member Board of Commissioners is responsible for the activities of the Liquor Control Commission and the Minister of Development and Technology is the Minister Responsible for the Liquor Control Act.

5.3 The Commission is responsible for licensing and inspecting all licensed premises and special permit functions. It operates 19 retail liquor stores, an agency store, and the licensee distribution centre. The Commission's head office and warehouse are located in Charlottetown. The Commission's organization chart is included as **Exhibit 5.1**.

EXHIBIT 5.1
PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
ORGANIZATION CHART



5.4 In 2004-05 the Commission's net income from operations was $10.9 million which resulted from sales of $71 million. Profits from operations are transferred to the Province. As part of its sales, the Commission also collected health tax of $12.3 million and provincial sales tax of $5.3 million in 2004-05. A summary of the Commission's revenues and expenses for the last five years is included in **Exhibit 5.2.**

EXHIBIT 5.2
PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION
FINANCIAL SUMMARY
($000)

	2001	2002	2003	2004	2005	Growth
SALES	$60,396	$63,716	$66,003	$69,338	$70,968	17.5 %
Provincial Taxes	14,827	15,704	16,278	17,207	17,600	
GST	3,826	3,847	4,032	4,286	4,407	
	18,653	19,551	20,310	21,493	22,007	
NET SALES	41,743	44,165	45,693	47,845	48,961	17.3 %
COST OF GOODS SOLD	24,306	25,683	26,805	27,687	28,618	17.7 %
GROSS PROFIT	17,437	18,482	18,888	20,158	20,343	
EXPENSES	8,492	9,201	9,998	10,809	11,036	30.0 %
	8,945	9,281	8,890	9,349	9,307	
OTHER INCOME	1,090	897	1,181	1,294	1,621	
NET INCOME	$10,035	$10,178	$10,071	$10,643	$10,928	8.9 %
Net Income and Taxes Transferred to Province	$24,862	$25,882	$26,349	$27,850	$28,528	14.7 %

OBJECTIVES AND SCOPE

5.5 In accordance with Section 13 of the Audit Act, we conducted an examination of the Prince Edward Island Liquor Control Commission. Our objective was to determine whether management practices are adequate to ensure the Prince Edward Island Liquor Control Commission is operated with due regard for economy and efficiency, and the Liquor Control Act is enforced.

5.6 Our examination was performed in accordance with the standards for assurance engagements encompassing value for money established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Our audit focused on the operations of the Commission for the year ended March 31, 2005.

DETAILED AUDIT OBSERVATIONS

Governance

5.7 The Commission Board approved a Policy on Governance in May 2005. The policy identifies the entities and individuals responsible for the governance processes at the Commission. It identifies the role of the Government, the Board, Committees, the Chief Executive Officer, the Officers of the Commission, and Commission Policies.

5.8 The Liquor Control Act provides for the appointment of a five member Commission Board. The Commission meets on a regular basis. There are three Board committees established to assist the Commission Board. The Governance Committee reports to the Commission Board concerning governance policies and practices of the Board. The Strategic Planning and Budgeting Committee is responsible to review, evaluate and make recommendations to the Commission Board in relation to corporate plans. The Audit Committee was established to assist the Commission in its oversight role with respect to: the quality and integrity of financial information; the independent auditor's performance, qualifications and independence; and the Commission's compliance with legal and regulatory requirements.

5.9 The Commission Board approved a "Corporate Strategic and Business Plan for 5 Years" in May 2005. The strategic plan includes a mission statement which is linked to the day to day activities in five strategic theme areas: Financial Performance; Customer Service; Business Effectiveness; Social Responsibility; and Workplace Quality and Employee Excellence. Each of these areas has goals, objectives, strategies and performance measures. The performance measures are quantitative in nature and are intended to direct the Commission's efforts toward improvements in performance. The baseline for the measures is established as 2004-05, with specific targets for the following four years. Although the Commission Board reviews financial information on a monthly basis, at the time of our audit they had not been receiving information on a regular basis on the achievement of plans.

5.10 Given the magnitude of Commission revenues and expenses and the responsibility of the Commission Board to oversee the financial affairs of the organization, we expected that the Commission Board would approve the budgeted revenues and expenses of the Commission on an annual basis before the information is forwarded to Treasury Board. At the time of our audit, the annual budget was not being approved by the Commission Board. The CEO advised that the Commission Board was aware of the budget that was being forwarded to Treasury Board.

5.11 The terms of reference for the recently formed Strategic Planning and Budgeting Committee include responsibilities to monitor implementation of plans through agreed measures and to review the annual budget and recommend its approval to the Commission Board. If this Committee operates as intended, this important information should be available for the approval of the Commission Board on a regular basis.

5.12 The Financial Administration Act indicates "Each reporting entity shall submit an annual report to the appropriate Minister in such form as he may require which shall include an audited statement of accounts and statement of goals and results achieved during the reporting period." The Liquor Control Commission prepares an annual report for tabling in the Legislative Assembly. We reviewed the 2005 Annual Report of the Liquor Control Commission. The report describes the role of the Commission and reports on the major activities and financial performance. The Annual Report did not report on goals and results achieved but it did indicate that the Commission's goals and objectives would be set and measured with the results being reported in the next annual report.

Recommendations

5.13 The Commission Board should be updated on the achievement of plans on a timely basis.

5.14 The annual budgeted revenues and expenditures of the PEI Liquor Control Commission should be formally approved by the Commission Board.

5.15 In accordance with the Financial Administration Act, the Commission should include information in its Annual Report on goals and results achieved.

Staffing

5.16 The staff of the Commission includes 118 full time equivalent positions as well as 52 full time equivalent casual positions. Approximately 280 people fill these 170 positions. Expenditures for salaries and benefits in 2004-05 were $6.5 million and represent 59 percent of the operating expenditures of the Commission. We reviewed the staffing of retail stores.

5.17 In our 1987 value for money audit report on the Commission we recommended that the Commission develop appropriate staffing standards. Management indicated that the Commission would work on developing appropriate staffing standards and some action has been taken. Stores are to be staffed based on the following criteria:

- a minimum of two people in the store; and
- a classification of stores based on sales.

5.18 Having a minimum of two people in the store is for security reasons. The classification of stores based on volume of sales is intended to recognize that economies of scale can be achieved with larger volumes of activity.

5.19 The Class A stores each had sales in excess of $8 million. The Class B stores had sales between $3.7 million and $6.3 million. These stores did not have as high a volume of sales per staff member as the Class A stores. The Class C stores had sales between $.8 million and $3.1 million and were staffed based on the minimum number of persons required to have two people in the store.

5.20 We analysed the staffing at the retail liquor stores based on management's criteria of a minimum of two staff in the store and the classification system based on sales. The Class A and B stores have comparable numbers of staff relative to stores of the same classification when sick and vacation leave is considered. We found

that all of the Class C stores had more staff than required to cover the hours the stores are open. Management indicated that part of the reason these stores appear to have higher staffing is that there is limited flexibility with smaller staff levels to adapt to leaves as a result of sickness and vacations.

Inventory Control

5.21 The Commission carries inventory which comes from many different countries. The inventory has a high value, and is subject to breakage or loss if not managed properly. Our audit focused on the management procedures for ensuring appropriate quantities of inventory were available. Procedures should be aimed at keeping inventory costs low while providing desired customer service.

Ordering

5.22 We expected the Commission to use ordering procedures which minimize the cost of shipping and carrying inventory, while keeping the frequency of stock outs to an acceptable level.

5.23 The Commission uses two computerized inventory management systems; one for the warehouse, and the second for the stores. Both systems track sales and inventory levels and include standard order quantities and lead times for delivery which are used to estimate orders as required. Stores usually receive orders either weekly or bi-weekly.

5.24 Spirits and wines are handled through the warehouse while most beer is delivered directly to stores by the breweries. Warehouse orders are made up of product from Canada (69 percent) most of which can be received within 7 days, product from off the continent (26 percent), much of which was, until recently, ordered twice per year, and product from the United States (5 percent) which is typically available in a month or less.

5.25 Stores order from the warehouse or directly from the two major breweries. The larger stores order from both sources approximately weekly while the smaller stores typically have bi-weekly orders. Additional deliveries are available where necessary.

5.26 Given the short delivery times for most products, we expected inventories to be kept at relatively low levels. For example, much of the product handled through the warehouse is available within seven days, yet the average warehouse inventory was sufficient for one months sales. In addition, minimum inventories at stores should be sufficient to keep the product displayed on the shelf and stocked for the one or two weeks sales between deliveries. Overall, enough inventory was available to cover two months sales which is considered high given the short lead times. **Exhibit 5.3** illustrates the average monthly inventory levels during 2004-05. Inventory turnover should be improved given that most products can be acquired in less than two weeks. In its most recent Corporate Strategic Plan, the Commission Board identified the improvement of turnover rates as a strategy to improve operating efficiencies.

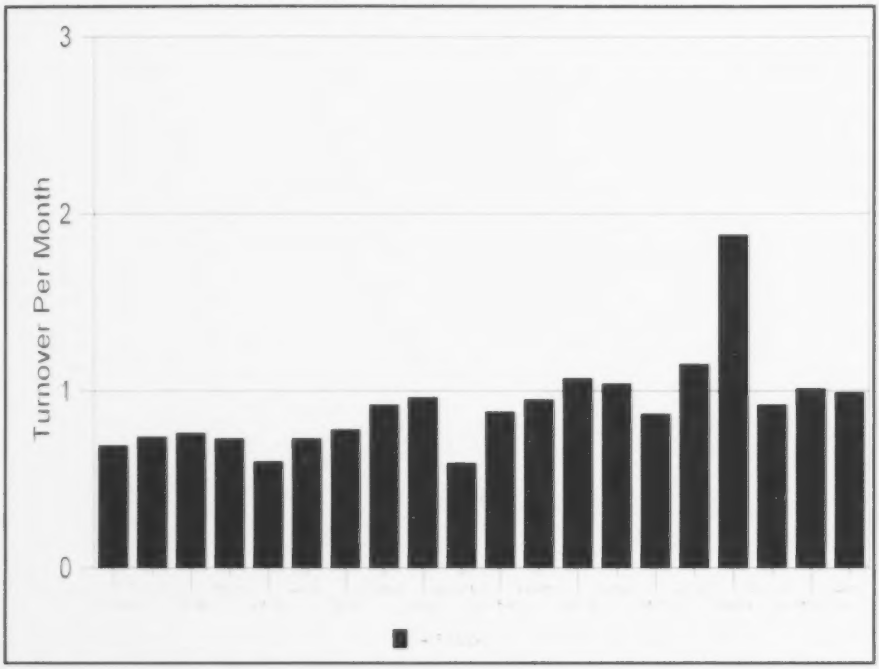
EXHIBIT 5.3
MONTHLY AVERAGE INVENTORY
($ MILLIONS)

*Includes excise tax

5.27 Stores range in size from Wood Islands with net sales of $360,000 to Oak Tree Place with net sales of $8.4 million in 2004-05. The smaller stores have lower turnover and typically receive deliveries less frequently, every two weeks. This is partially offset because they carry less than the full product line and may not have slower moving items.

5.28 **Exhibit 5.4** summarizes the average inventory turnover per month by store in order of store volume. Overall, there is a significant range in turnover between stores of similar size. Stratford stands out as a store with a very high turnover. This store has limited warehouse space and is easily stocked from the central warehouse allowing it to keep inventory levels to a minimum.

EXHIBIT 5.4
AVERAGE INVENTORY TURNOVER PER MONTH
2004-05



Recommendations

5.29 Inventory strategies in the warehouse should be reviewed to determine whether smaller, more frequent orders can be utilized to reduce inventory levels.

5.30 Inventory procedures in the stores should be reviewed with the objective of reducing inventory levels.

Product Management

5.31 The Corporate Strategic and Business Plan of the Commission incorporates issues related to product management in three of the five strategic areas:

1) Financial Performance - grow sales;
2) Customer Service - provide store upgrades, provide enhanced customer services, and improve the product portfolio; and
3) Business Effectiveness - improve turnover rates and continue category management and shelf management plans for retail stores.

The strategic plan provides general direction but not a specific marketing plan that integrates the Commission's activities related to product listings, displays, and pricing.

5.32 The Commission carried approximately 950 liquor products in 2004-05. The new and renovated stores of the Commission are intended to offer customers a shopping environment with modern shelving and displays, and refrigerated product. The Commission intends to allocate shelf space to spirits and wines based on product sales and/or profitability. At the time of our review, formal plans were in place for some stores and were expected to contribute towards increased profitability.

5.33 The Commission has control over markups on liquor. Taxes include excise, health, goods and services, and sales. Typical pricing for liquor based on standard markups is illustrated in **Exhibit 5.5**. The Commission is able to charge its own markups and this automatically triggers the taxes.

EXHIBIT 5.5
LIQUOR CONTROL COMMISSION
PRODUCT PRICING

	Spirits	Wine	Beer
Product Cost (including shipping)	17%	30%	49%
Commission Markup	36	35	21
Taxes	47	35	30
Retail Price	100%	100%	100%

5.34 Similar to other areas of marketing, the markup and pricing structure indicates components of a marketing strategy. Such strategies need to be formally integrated and documented so that

objectives can be stated in measurable terms and performance can be measured.

Recommendation

5.35 A documented marketing plan should be approved by the Commission Board, clearly communicated, and monitored to cover all elements of marketing addressed in the strategic plan.

Licensing and Security

5.36 The Licensing and Security Section is responsible for ensuring that only premises which meet the requirements of the Liquor Control Act and Regulations are licensed to sell alcoholic beverages. There are approximately 470 licenses issued or renewed each year.

5.37 The requirements for a license are established in the Liquor Control Act and all applications must be approved by the Liquor Control Commission. There were 39 licenses issued in 2004-05. We found that the process in place for granting licenses was satisfactory.

5.38 The Commission inspectors monitor licensees' compliance with the regulations. Inspections are scheduled weekly, with most taking place in the evenings. During 2004-05 there were approximately 5,000 inspections performed.

5.39 One of the results of the inspection process is that violations of the Act or Regulations are reported. The Commission Board will then determine if the license should be suspended for a period of time. During the year there were two suspensions issued.

Facilities

5.40 The Commission operates a central warehouse/head office complex, a licensee distribution centre and 19 retail stores.

Store Location

5.41 Store location is based on the population to be served by the store as well as a general principle that no person should have to travel more than 16 kilometers to a liquor store. More densely populated areas have a higher concentration of stores. The more recent rural stores in Montague, Morell (agency store) and Wood Islands have increased service in eastern PEI to the extent that the service areas now overlap. A similar situation has existed in western PEI for years. The Commission currently has no plans to increase or reduce the number of stores.

5.42 Recent changes to the stores include the lease of a store in Wood Islands and the renovation of the Queen Street and Tignish stores. We examined the documentation supporting these projects. The construction and renovation projects were managed for the Commission by the Department of Transportation and Public Works. Overall, we were satisfied that these projects were managed in accordance with the Treasury Board policy on Capital Projects Management. This included planning, design, Treasury Board/Executive Council approval, public tendering, project management and follow-up evaluation.

Facilities Plan

5.43 The Commission has, as part of its business plan, a plan to renovate six older stores plus the head office over the next three years and to add refrigeration to two stores in western PEI in 2008-09. Some of these stores have leases that expire during the period. These leases should be reviewed before they are renewed to ensure that they offer the most cost-effective, long-term solution for the Commission.

5.44 The facility plan does not provide detailed information on the renovations to the six stores or a specific plan for each facility. Two components which need to be clearly determined are overall store size and the proportions of retail and warehouse space. As indicated in **Exhibit 5.6**, Commission stores show a wide range of sales per retail space. Recent facilities decisions have not altered store sizes.

Where stores are subject to major renovation or lease renewal, the Commission should evaluate alternative store sizes with the objective of reducing facilities costs, and addressing an appropriate inventory strategy for the store.

EXHIBIT 5.6
COMMISSION SALES PER RETAIL SPACE

Store	Type	Net Sales 2004-05 (Millions $)	Sales Per Retail Sq. Ft.
Oaktree	Leased	8.36	1,106
Ch'town Mall	Leased	4.62	722
Sherbrooke	Leased	4.46	1,025
Stratford	Leased	3.98	1,106
Waterfront	Leased	3.59	813
Montague	Leased	2.61	801
Cornwall	Leased	2.41	561
Kensington	Leased	2.04	565
North Rustico	Owned	1.99	765
Queen St.	Leased	1.84	703
Souris	Owned	1.55	680
Cardigan	Owned	1.31	595
Tignish	Owned	1.30	402
O'Leary	Owned	1.01	498
Borden	Leased	0.97	269
Alberton	Owned	0.97	388
Wellington	Leased	0.79	790
Tyne Valley	Leased	0.64	672
Wood Islands	Leased	0.36	289

Agency Stores

5.45 The Liquor Agency Regulations came into effect in 1994, allowing the Commission Board to appoint a vendor to operate a liquor agency. In PEI, unlike some other provinces, agencies are only allowed to operate a premise used solely for the display, sale and storage of liquor.

5.46 The Commission has one agency store in Morell. The Commission sells liquor to the agency store at a discount, much like a licensee, and has no involvement in day to day store operations. The store is required to comply with the Liquor Control Act and Regulations.

5.47 Based on the discount currently provided, four existing Commission stores could be more profitable if they were operated as agency stores.

Recommendations

5.48 The location of stores should be reviewed before leases are renewed to ensure they provide the most economic options.

5.49 The facility plan should identify the justification for store location and size.

5.50 The Commission Board should consider whether additional agency stores should be used to increase Commission profitability.

Travel

5.51 The Commission is required to follow a number of Treasury Board policies. As part of our audit, we looked for compliance with the policy on Travel.

5.52 The policy for in-province travel allows for specified mileage rates, meals under certain conditions and other expenses. All claims are to be on the forms prescribed by Treasury Board policy. We noted that forms were not always completed and signed for in-province travel. This makes it difficult to determine compliance with approved rates for mileage and other expenses and it is also difficult to keep track of high mileage drivers. Practices at the stores varied with most stores using petty cash vouchers to reimburse employees for in-province travel. This practice is not in compliance with Treasury Board policy. Similarly for out-of-province travel, travel expenses are not

always recorded and claimed on the forms prescribed by Treasury Board policy.

Recommendation

5.53 The Commission should comply with Treasury Board policies on travel.

MANAGEMENT RESPONSE

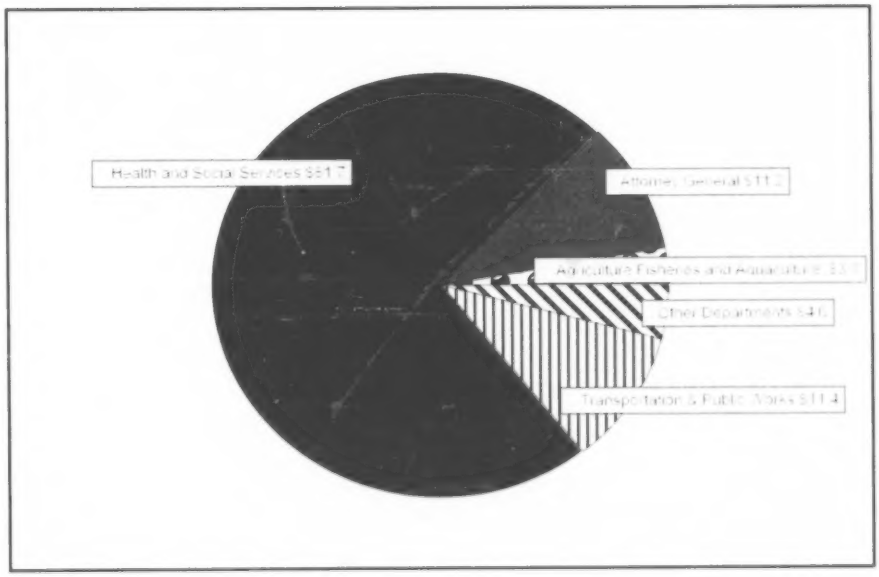
5.54 Our report was discussed with management and the issues raised will be addressed.

6. PROFESSIONAL AND CONTRACT SERVICES

BACKGROUND

6.1 Approximately $112 million was paid for professional and contract services in 2004-05 through various government departments. According to Treasury Board policy, Professional and Contract Services includes the cost of purchasing professional, special or contract services from non-government individuals, businesses or organizations. **Exhibit 6.1** summarizes the costs by department.

EXHIBIT 6.1
PROFESSIONAL AND CONTRACT SERVICES
BY DEPARTMENT
2004-05
($Millions)


Health and Social Services $51.7
Attorney General $11.2
Agriculture Fisheries and Aquaculture $3.3
Other Departments $4.6
Transportation & Public Works $11.4

6.2 The Treasury Board Policy and Procedures Manual sets out government's policies and procedures for professional and contract services in the section entitled Professional Services Contracts, Conditional Grants and Funding Agreements. The policy covers selection of contractors, approval, administration, risk management and purchaser/contractor relationships. The policy applies to

departments and certain Crown corporations. Where the policy does not specifically apply, it is intended to serve as a guideline.

6.3 The general principles that government is committing to in the policy are:

- the best quality product/service for the most economic cost;
- consistency, uniformity, and fairness in all facets of the acquisition and administration of contracted services;
- opportunity for private sector bidders to participate in government business; and
- reduction of unnecessary liability and financial risk to government which could result from contractual arrangements.

6.4 Professional and contract services are also subject to the terms of the Atlantic Procurement Agreement which provides for equal tendering opportunity for businesses in the Atlantic provinces for government purchases of goods $25,000 or greater, services $50,000 or greater, and construction contracts $100,000 or greater. A limit of $100,000 for services is also included in the Agreement on Internal Trade which covers all provinces. These agreements allow for exceptions in certain circumstances.

OBJECTIVES AND SCOPE

6.5 In accordance with Section 13 of the Audit Act we conducted an examination of professional and contract services of government departments. Our objective was to assess whether government policies and procedures relating to professional and contract services were followed. We did not include expenditures related to in-province physician fees, out-of-province physician fees or out-of-province hospital referrals. In conducting our work we reviewed a sample of contracts and related documentation provided by departments for 2003-04 and updated the expenditure information for 2004-05.

6.6 Our examination was performed in accordance with the standards for assurance engagements encompassing value for money, established by the Canadian Institute of Chartered

Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Selection of Contractors

6.7 Treasury Board policy indicates that as standard practice, contract services should be obtained through the use of a competitive process. The process should ensure that a reasonable number of qualified individuals/firms are given an equitable opportunity to compete for the available work. The general objective is to select the contractor who has the potential of providing the best value for the best price.

6.8 The policy allows for two forms of competitive process; by public invitation, or by invitation to qualified bidders. Public invitation is to be used where the work can be conducted by a number of contractors and the possession of specialized skills and equipment is not the determining factor. Public invitations will be placed in one or more newspapers. Contracts meeting the criteria for the Atlantic Procurement Agreement are generally advertised on the MERX website which is the site used for electronic tendering for all levels of government.

6.9 Invitation to qualified bidders may be appropriate where the work requires specialized expertise or equipment, the cost of preparing a proposal is significant in relation to the contract value, the work is urgent, or the value and location of the work precludes competitive bidding. At a minimum, proposals should be requested from three bidders.

6.10 The policy also allows for selection without competition where only one firm is capable of doing the work; the need is of extreme urgency; due to a prior contract the proposed consultant is the only one who can undertake the next phase; or due to the nature of the work it would not be in the public interest to discuss the requirement with another firm.

6.11 Evaluation of proposals is the responsibility of each department. They are required to use predetermined evaluation criteria to determine which proposal offers the best value.

6.12 We selected 54 contracts which were charged to professional and contract services of government departments in 2003-04. The total payments made under these contracts was $24.4 million. We determined that 11 of the items selected totalling $2.7 million were incorrectly charged to professional and contract services, and should have been charged to grants, materials or salaries. **Exhibit 6.2** summarizes the contracts selected in our sample.

EXHIBIT 6.2
PROFESSIONAL AND CONTRACT SERVICES
CONTRACTS EXAMINED
($000)

Contracts	Number	Payments 2003-04
Awarded by competition	9	$ 4,769
Should have been competitively bid	3	287
Economic Development/Government Policy	6	4,452
Specialist/Proprietary Services	15	1,213
Multi-Government	6	10,936
Government Negotiated Rates	3	50
Contracts less than $1,500	1	1
Total Contracts	43	21,708
Incorrectly Classified		
Government Grants	8	2,536
Materials	1	68
Staff Secondments	2	88
	11	2,692
	54	$24,400

6.13 Of the 43 contracts, 9 contracts totalling $4.8 million were awarded by competition. Based on the policy there were three contracts totalling $287,000 that should have been competitively bid but were not.

6.14 Under the Atlantic Procurement Agreement exceptions to a competitive process are allowed in certain circumstances but must be reported to the Atlantic Procurement Coordinating Committee. We were advised that reporting requirements under the Atlantic Procurement Agreement were discontinued in 2000 as similar reports were filed under the Agreement on Internal Trade.

6.15 We found that five contracts with payments totalling $690,000 in 2003-04 would normally have to be tendered based on the requirements of the Atlantic Procurement Agreement, however, they were treated as economic development projects when they were initially awarded. These contracts were not reported as exceptions in the Report on the Agreement on Internal Trade.

Recommendations

6.16 In accordance with Treasury Board policy, departments should ensure that contracts are competitively bid whenever possible.

6.17 The Province should report exceptions as required under the Agreement on Internal Trade.

Contract Content

6.18 The Treasury Board policy outlines the content for professional services contracts. The policy refers to a number of possible contract sections with the intent that staff of the department involved are to determine the appropriateness of each section for the contract planned and make any amendments, additions, or deletions as necessary.

6.19 For the contractual arrangements we examined we noted that the contents of the contracts varied considerably. Some of the contracts were formal contracts while others were a letter from a Minister or Director. In some cases a standard form contract from the supplier was used which did not meet Treasury Board policy.

6.20 There were two contractual arrangements in our sample where no contract was in place and one which was reported as verbal. Where the arrangements are not documented in a contract, the essential aspects are missing for example; a clearly defined statement of the work to be performed, the duration of the contract, the reporting requirements as well as other aspects that may be critical to the particular agreement.

6.21 One section referred to in the Treasury Board policy is reporting requirements. Many professional services contracts require reporting at various points throughout the contract. This is particularly important for contracts such as computer systems development where government needs to monitor the progress of the project. We found three contracts where the work carried out was developmental and there were no specific reporting requirements in the contract.

6.22 A confidentiality clause is a particular aspect that may be included in a contractual arrangement. It is especially important where the contractor is exposed to confidential government information. We noted one contract where a confidentiality clause was not in place but appeared to be warranted based on the nature of the work.

6.23 The Treasury Board policy recommends that government be protected by insurance and from acts that the contractor should be liable for, often referred to as the "Hold Harmless and Indemnity Clause." Fourteen of the contracts we reviewed required the contractor to carry specific levels of insurance but only eight required that government be provided with proof of insurance.

Recommendation

6.24 Significant aspects of contractual arrangements should be considered by Department staff and documented in contracts as required.

Contract Approval

6.25 The policy requires that all contracts and agreements in which the contract value exceeds $100,000 are to be approved by Treasury Board prior to execution by the Minister or Deputy Minister. Exceptions to this limit are where statutory authority has been granted or by specific authority of Treasury Board or Executive Council. Contracts with a value of $100,000 or less may be approved and executed by the Minister or Deputy Minister. Amendments which increase the contract value in excess of 10 percent and for which the revised contract value exceeds $100,000 require Treasury Board approval. All federal-provincial and interprovincial agreements must be approved by Executive Council prior to execution by the Minister. There is no provision in the Treasury Board policy for the delegation of signing authority for contracts. We found one contract that did not have the required Treasury Board approval.

Recommendation

6.26 Contracts should be approved in accordance with Treasury Board policy.

MANAGEMENT RESPONSE

6.27 Our report was recently issued and a written response will be prepared.

7. PUBLIC TRUSTEE

BACKGROUND

7.1 The principal role of the Public Trustee is to look after the financial affairs of persons who are deemed incompetent under the Public Trustee Act and are incapable of handling their financial affairs. The Public Trustee is appointed under the Public Trustee Act. The Act also establishes an Advisory Committee to provide direction to the Public Trustee and report to the Lieutenant Governor in Council.

7.2 The Public Trustee may become involved in a person's financial affairs when:

- An individual is declared incompetent;
- A person dies intestate and has no one to administer their estate;
- Minors or others requiring assistance are awarded compensation under the Victims of Crime Act;
- Settlements to minor persons are ordered by the Court;
- A person gives voluntary power of attorney to the Public Trustee; or
- The court appoints the Public Trustee to administer an estate in difficult situations.

7.3 The Office of the Public Trustee charges a management fee for its services. Fees may vary in accordance with the Regulations. Management fees collected for the year ended March 31, 2005 were $57,700. For the year ended March 31, 2005 the Public Trustee was responsible for the investment and management of $9.1 million of assets as trustee. The financial transactions for the Public Trustee for the last five years are summarized in **Exhibit 7.1**.

EXHIBIT 7.1
PUBLIC TRUSTEE
FINANCIAL SUMMARY
($MILLIONS)

	2004-05	2003-04	2002-03	2001-02	2000-01
Trust Assets					
Cash/Accounts Receivable	$1.7	$1.4	$1.6	$1.4	$1.6
Provincial Deposit Receipts	-	-	-	-	1.6
Investments	6.2	6.4	7.1	6.1	2.4
Real Property	1.2	1.2	1.4	1.2	1.1
	9.1	9.0	10.1	8.7	6.7
Less: Liabilities	0.4	0.4	0.5	0.4	0.3
Client Trust Account Balances	$8.7	$8.6	$9.6	$8.3	$6.4
Client Trust Receipts/Acquisitions	$5.1	$4.2	$6.3	$9.5	$5.9
Client Trust Disbursements/Disposals	$5.0	$5.2	$5.0	$7.6	$6.2

7.4 As of March 31, 2005 the value of the trust accounts was $8.7 million. The largest 10 trust accounts (over $100,000) totalled $4.9 million or 56 percent of the trust account balances.

7.5 **Exhibit 7.2** provides a summary of the client types and trust account balances as of March 31, 2005.

EXHIBIT 7.2
CLIENT ACCOUNT SUMMARY
MARCH 31, 2005

Type	Number	Trust Account Balances ($000)
Incompetent persons	113	$4,287
Estates	61	538
Property Tax Trusts	125	809
Court Awards - Minors	29	768
Power of Attorney	34	1,575
Funds Held in Trust	27	156
Trustee under Will	4	200
Victims of Crime	33	195
Other	10	216
	436	$8,744

OBJECTIVES AND SCOPE

7.6 In accordance with Section 13 of the Audit Act, we conducted an examination of the Office of the Public Trustee. Our objective was to assess the practices and procedures used by the Public Trustee to manage client trust accounts. Our work focused on the 2004-05 fiscal year. In conducting our work we interviewed the staff of the Office of the Public Trustee and examined various reports, documents and files.

7.7 Our examination was performed in accordance with the standards for assurance engagements encompassing value for money, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Administration

7.8 The Public Trustee's primary role is to manage the financial affairs of clients. Non-financial affairs, such as the personal care for incompetent persons may be managed by the Department of Health and Social Services. For example, the Public Guardian may determine that a person under their care should be placed in a manor. The Public Trustee may then become responsible for managing the person's financial affairs in accordance with that determination.

7.9 The Public Trustee keeps legal, correspondence and expenditure files for each client as well as separate files for investments and a ledger of receipts and disbursements which was computerized in October 2004.

7.10 We examined the legal and related documentation supporting the client's status with respect to the Public Trustee. Typical documents are listed in **Exhibit 7.3**.

EXHIBIT 7.3
TYPICAL SUPPORTING DOCUMENTS FOR ASSIGNMENT OF CLIENTS TO THE PUBLIC TRUSTEE

Client Type	Typical Supporting Documentation
Incompetent Person	Certificates from two Doctors or court order
Estates	Death Certificate, Letters of Administration
Property Tax Trust	Transfer letter from Provincial Treasury
Court Awards - Minors	Court order, usually Insurance Claim
Power of Attorney	POA signed by Client
Funds Held in Trust	Specific to situation
Trustee Under Will	Will or assignment specifying administrator
Victims of Crime	Minister's Order
Other	Specific to situation

7.11 In the files we examined, documents were found to support the client's assignment to the Public Trustee.

Incompetent Persons

7.12 An incompetent person is defined as one who is, in the opinion of two physicians, incapable of managing and understanding their financial affairs. Relatives would normally be expected to assume the care of the person. However, when this is not possible, the Public Trustee becomes responsible for the person's financial affairs. It is an office of last resort. Application is normally by certificate from the attending physician or by order of the Court. The Public Trustee acts on behalf of the incompetent person with full rights and powers to administer the person's assets. Of the 113 incompetent persons, 10 accounted for $3.5 million or 81 percent of the trust account balances for these clients.

Estates

7.13 When a person dies without a will and without a relative who can administer their estate, the Court may assign the Public Trustee to administer the estate. The Public Trustee had 61 estates with trust accounts totalling $538,000 at March 31, 2005. At least 44 of these totalling $444,000 were more than five years old. Many were inactive because they were quite small or because no beneficiaries could be located.

Property Tax Trusts

7.14 The Real Property Tax Act provides for the Province to sell property to recover tax arrears and expenses. If there is a surplus, it is payable to the landowner who owned the property with taxes due. A practice has developed where Provincial Treasury forwards any surplus funds to the Public Trustee to be held. The Public Trustee invests the funds in revolving one-year redeemable GICs until the owner is identified. There were 125 of these accounts with a value of $809,000 at March 31, 2005. Ninety-six of these accounts totalling $523,000 were over five years old.

7.15 According to staff, discussions are being held to change the current practice of forwarding these surplus funds to the Office of the Public Trustee.

Unclaimed Intangible Property

7.16 Part IV of the Public Trustee Act protects the rights of owners of intangible property held by others, and allows the Province to use the property until such time as it is claimed by the owner. Intangible property means a right of ownership over any personal property that is not a chattel or a mortgage and includes money, investments, insurance proceeds and trust accounts. The claim period for intangible property is normally five years but the Act provides certain exceptions whereby the claim period varies from one to fifteen years. The Public Trustee Act requires the Public Trustee to maintain an unclaimed intangible property account, record in this account all unclaimed property transferred to the Public Trustee, transfer the funds to the Operating Fund at the end of each fiscal year, and respond to claims by prospective owners. The Act also provides powers such as inspection that may be used to find unclaimed intangible property.

7.17 At the time of our audit, this part of the Act was not being complied with. Management advised that they do not have sufficient resources and Regulations are not in place for enforcement of this part of the Act.

Fees

7.18 For the period of the audit, fees under the Public Trustee Act were fixed by Regulations established in 1998. According to those Regulations, there was a charge of one percent of the assets received in the initial year and an annual management fee of $300 to $1,200 depending on the average assets held in trust. Under the Public Trustee Act, however, the Public Trustee may waive all or part of the fees. Approved policy outlines two factors to be considered regarding the waiving of fees: the amount of work on the file; and the size of the estate (trust). Partial fees of $50 or $100 are suggested in the policy.

7.19 During 2004-05, 97 clients were charged fees totalling $57,700. There were 379 of the 476 clients that were not charged fees as summarized in **Exhibit 7.4.**

EXHIBIT 7.4
WAIVER OF FEES
2004-05

Client Type	Number	Trust Balances at March 31/05 ($000)
Small accounts (less than $5,000)	262	$ 506
Clients receiving income support	11	147
Victims of Crime	6	66
Court Awards - Minors	17	423
Property Tax Trusts	39	622
Inactive Accounts	20	381
Other	24	399
	379	$2,544

7.20 Waiving of fees for the above accounts is at the discretion of the Public Trustee. We noted that full waivers were used frequently and partial waivers were used in some cases.

7.21 In May 2005, revised fees were approved. The fees modify the annual management fee to a maximum of $10,000 for estates or trusts greater than $1 million. Specified fees are included for real estate transactions, tax returns and other expenses. The fees are generally higher than the fees established in 1998. The fees prescribed in the Regulations continue to be based on asset value which does not necessarily reflect the activity in the trust. A trust may have many receipts and disbursements but only a small balance.

Administrative Records

7.22 We reviewed a sample of transactions in 2004-05. Many accounts including estates and property tax trusts had only one transaction such as interest recorded at year end. The active accounts we reviewed typically had receipts from government and private pensions, investments and principal as needed to cover client expenses. Typical expenses related to manor fees, home expenses or personal expenses, depending on the client's situation.

Recommendations

7.23 Additional effort should be made to contact beneficiaries of estates and where beneficiaries cannot be located the accounts over five years old should be closed.

7.24 Additional effort should be made to identify parties who are entitled to property tax trust funds and where they cannot be located balances over five years old should be closed.

7.25 Part IV of the Public Trustee Act should be reviewed and either be complied with or amended.

Investment Policy

7.26 The Public Trustee may invest in securities authorized under the Public Trustee Act. General guidance under the Act is to invest trust property in any form of property or security in which a prudent investor might invest that is consistent with the trust.

7.27 There is currently no formal documented investment policy for client trusts. According to staff, non-cash investments are generally left invested in the form in which they were received, such as bonds, mutual funds or land. Cash received is invested in one year redeemable guaranteed investment certificates. Investments are converted into cash as needed to cover the expenses of the client.

7.28 **Exhibit 7.5** illustrates the funds by client type invested in guaranteed investment certificates (GICs). As of March 31, 2005, the Public Trustee held approximately $2.9 million in one year GICs at a chartered bank. Interest rates varied but generally ranged from 1.5 percent to 1.9 percent.

EXHIBIT 7.5
GUARANTEED INVESTMENT CERTIFICATES HELD
AS AT MARCH 31, 2005
($000)

Type of Client	Balance
Incompetent Persons	$ 653
Estates	451
Property Tax Trusts	664
Court Awards - Minors	569
Powers of Attorney	139
Funds Held in Trust	127
Victims of Crime	127
Other	148
	$2,878

7.29 Many of these deposits are for multi-year periods. A possible strategy for the Public Trustee would be to pool investments and deposit the funds on a five year revolving basis. Estimated guaranteed returns could be increased by an average of approximately 1.4 percent using the same chartered bank and 1.7 percent using another local financial institution. We estimate the potential impact could be a $49,000 increase in annual interest revenue on GIC holdings.

7.30 Achieving a higher return using this strategy would require pooling of funds and some administration by staff such as the calculation of interest rates. This increased return would be reduced by $10,000 if the GICs totalling approximately $825,000 held for unclaimed Estates and Property Tax Trusts were redeemed and the proceeds paid to the Province's Operating Fund.

Recommendations

7.31 An investment policy should be documented for client trusts.

7.32 The Public Trustee should examine opportunities to increase investment yields.

MANAGEMENT RESPONSE

7.33 Our report was discussed with management and a written response will be prepared.

8. KPMG LLP FORENSIC AUDIT OF POLAR FOODS INTERNATIONAL INC.

BACKGROUND

8.1 In our 2005 Annual Report we recommended that a forensic audit be conducted on the operations of Polar Foods International Inc. (Polar Foods). KPMG LLP was retained by our Office to conduct the forensic audit. The work commenced in March 2005 and the report was completed in November 2005.

SCOPE OF WORK

8.2 The review of the operations of Polar Foods conducted by KPMG LLP was based on the period March 7, 2003 to February 27, 2004 and included the following:

- Review of the loan and marketing agreement between Polar Foods and the multinational firm;
- Examination of the business and accounting practices for the period under review relating to; recording revenue, accounts receivable, inventory, operating line of credit, margining calculations in support of financial assistance and selling expenses;
- Determination of the inventory standard cost discrepancies documented in the Auditor General's Annual Report on Government's Involvement with Polar Foods International Inc.;
- Review of the tax loss utilization; and
- Payment of dividends.

8.3 To conduct its work KPMG LLP reviewed documents from the files of the Office of the Auditor General, source documents held by the Receiver in Saint John, New Brunswick and source documents held by the Receiver in Charlottetown, PEI. As well KPMG LLP interviewed, held discussions with or reviewed written responses from:

- Former executive and financial management employees of Polar Foods;
- Representatives of the former auditing firm of Polar Foods;
- Representatives of the Receiver;

- Representatives of PEI Business Development Inc.; and
- Representatives of the multinational firm who held the marketing agreement with Polar Foods.

Access to Records

8.4 On March 11, 2005 the initial request for information by KPMG LLP was made to the Receiver who was in possession of Polar Foods records. Based on the marketing agreement that Polar Foods entered into in March 2003, the Receiver sought legal advice as to the release of Polar Foods records.

8.5 This issue of access to the records of Polar Foods was resolved after considerable discussion between the Office of the Auditor General, KPMG LLP, PEI Business Development Inc. (BDI), the Receiver and legal counsel for the multinational firm who was party to the marketing agreement. Access was granted on April 20, 2005. This negotiation process resulted in additional cost and time for KPMG LLP to complete the work.

REVIEW OF KPMG LLP REPORT

8.6 The Legislative Audit Committee directed the Office to present the results of KPMG LLP's work and findings to the Committee upon completion of the engagement. The report was presented to the Committee at a meeting on November 9, 2005. Following the meeting the Committee made the report public.

8.7 The Public Accounts Committee requested that our office attend two meetings of the Committee to present the report and provide to the Committee additional information as requested.

KPMG LLP RECOMMENDATIONS

8.8 In their report KPMG LLP made five recommendations. We obtained information from the Provincial Treasurer on the current status of work on these recommendations as follows:

- **Information Provided to and Accepted by BDI**
  Given the status of BDI as a government organization providing financial assistance on behalf of the Province, KPMG LLP recommends that BDI carry out its responsibility to monitor and enforce the various terms and conditions of the agreements governing preferred share investments, loan guarantees and other assistance provided.

  Current Status:

  BDI now has a contract compliance officer responsible for tracking requirements and informing project officers.

- **Tax Loss Utilization**
  KPMG LLP recommends that the Province direct BDI to request the Receiver to provide the 2004 income tax returns of Polar Foods and provide BDI with an analysis of the loss utilization planning considerations in order to ascertain if value from the accumulated losses in the subsidiary corporations could have been realized for the benefit of the Province.

  Current Status:

  The receiver has started this analysis and we anticipate a report shortly.

- **Dividend Payments**
  KPMG LLP recommends that the Province seek legal advice in order to determine if remedies exist for recovery due to the contravention of the Companies Act of PEI.

  Current Status:

  BDI retained a lawyer to determine if remedies exist. A draft opinion is expected shortly.

- **Collection or Resolution of Disputed and Other Amounts**
  KPMG LLP recommends that this matter be resolved by requiring BDI to request the Receiver's disclosure in a statement or reconciliation for accounts receivable and inventory which would include a resolution of the disputed amounts, including written explanations providing reasons for amounts not recovered.

  Current Status:

  The Receiver is attempting to resolve these disputed amounts and will provide BDI with a report detailing their final resolution.

- **Marketing Agreement**
  KPMG LLP recommends that the Province conduct sufficient due diligence and require that contractual arrangements contain the rights and remedies and include legal documentation on all commitments in order to ensure that the Province's investments are protected through remedies or recovery from parties benefiting from the Province's guarantee.

  Current Status:

  Where BDI approval is required before a client enters into an agreement with a third party, BDI will continue to review the agreements to determine if the terms of the agreement are in the best interest of their client and the Province.

FINANCIAL STATEMENT AUDITS

9. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

INTRODUCTION

9.1 Section 13 of the Audit Act establishes the Auditor General's mandate to perform financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

9.2 Financial statements are management's responsibility and reflect management's assertions. They provide information that is used to make important economic decisions. It is imperative that the reader has confidence in the quality of that information.

9.3 The auditor is independent of management and can objectively assess the accounting principles used and the estimates and other decisions made by management as reflected in the financial statements. An examination of the entity's accounts is carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The result of the examination is the auditor's opinion as issued in the Auditor's Report.

9.4 In addition to issuing an Auditor's Report on the financial statements, the auditor may also identify problems in the financial controls and accounting records. In these cases, findings and recommendations are reported in a management letter addressed to the department or agency.

9.5 For the majority of the financial statement audits we performed, management letters were issued. We brought to management's attention any problems noted during the audits and made recommendations for improvements. These recommendations are at various stages of implementation.

9.6 In the following sections we provide summary information on our audits of the Public Accounts and Appropriations.

10. PUBLIC ACCOUNTS

BACKGROUND

10.1 The Public Accounts include the annual financial statements of government and are the primary source of information on government's stewardship of public funds both to Islanders and to the Legislative Assembly.

10.2 The Public Accounts are prepared by the Comptroller and tabled by the Provincial Treasurer as required by the Financial Administration Act. According to the Act, the Public Accounts must contain the Financial Statements of the Operating Fund and the Consolidated Financial Statements of the Province, along with any other statement required by Act to be presented. The Consolidated Financial Statements provide the most complete information about the operating results and financial position of the Province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies.

10.3 The Public Accounts for the year ended March 31, 2005 consist of two volumes:

- Volume I contains the consolidated audited financial statements.
- Volume II contains the audited financial statements of the Operating Fund, Crown corporations and agencies.

OBJECTIVES AND SCOPE

10.4 In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 2005. The objective of our audit was to express an opinion on the financial position and operating results of Government. Our audit reports on the Consolidated Financial Statements and the Operating Fund Financial Statements for the year ended March 31, 2005 did not contain any qualifications or reservations.

10.5 Under Section 17 of the Audit Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the Auditor's Report for each of these entities when performing the audit of the Public Accounts.

10.6 This report contains comments and observations arising from our audit of the Public Accounts for the fiscal year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

10.7 The Province implemented Public Sector Accounting Standards for tangible capital assets in the 2004 Public Accounts with restatement of the 2003 results. Under the new standard, tangible capital assets are set up on the statement of financial position and amortized over their useful life on the statement of operations. This is a significant departure from past accounting treatment where capital expenditures were expensed in their entirety on the statement of revenue and expenditure and no value for tangible capital assets was recorded in the statement of financial position. Results for years prior to 2003 do not reflect a comparable accounting basis and therefore, have not been included in the following schedule of consolidated results.

	Year Ended March 31 (Millions)		
	2005	**2004**	**2003** (Restated)
Provincial Revenue	$672.6	$ 634.5	$ 627.8
Federal Revenue	443.5	386.9	341.4
	1116.1	1,021.4	969.2
Expense	1149.7	1,146.5	1,023.8
Annual Surplus (Deficit)	$ (33.6)	$(125.1)	$ (54.6)

DETAILED AUDIT OBSERVATIONS

Financial Statement Presentation

10.8 The Consolidated Financial Statements provide a complete picture of Government operations by including the activities of Crown corporations and government agencies. Volume I of the Public Accounts contains the audited Consolidated Financial Statements. To avoid confusion and to ensure the Consolidated Financial Statements receive their proper attention, audited statements of the Operating Fund have been included in Volume II of the Public Accounts.

Special Projects Fund

10.9 The Prince Edward Island Special Projects Fund was established as of March 31, 1999 under the Financial Administration Act. Pursuant to the Act, the Lieutenant Governor in Council made regulations for the Fund. These Regulations established programs through which money can be disbursed, outlined the purpose of each program, determined eligibility criteria, and the approval and disbursement process.

10.10 The Province's Operating Fund provided total grants of $48 million to the Special Projects Fund; $1 million in 2000-01 and $23.5 million in each of the previous two years. In addition, the fund earned $3.6 million in interest revenue over the years. When expenditures are approved by the Special Projects Fund for designated programs a transfer is made back to the Operating Fund. When expenditures are made on each project, they are appropriated through the Operating Fund. Following are the expenditures made through Special Project Funds for the 2005 fiscal year and the totals from prior years:

Fund	Year Ended March 31 (Millions) 2005	1999-2004	Total
Health Care Stabilization Fund	$ -	$21.1	$21.1
Development Fund	-	15.8	15.8
Health Research Fund	.2	1.1	1.3
Sustainable Resource Support Fund	-	3.2	3.2
Community Development Fund	-	3.2	3.2
Education Stabilization Fund	-	5.9	5.9
Total	$.2	$50.3	$50.5

10.11 The balance in the Special Projects Fund was $1.1 million at March 31, 2005 and represents unspent funds of the Health Research Fund.

Outstanding Debentures and Related Accounts

10.12 The largest single liability on the Province's financial statements is its outstanding debentures, which account for $1.28 billion of the Province's $1.98 billion liabilities. All of these debentures have been issued in Canadian dollars. The outstanding debentures can be broken down into public issues of $1.143 billion and Canada Pension Plan issues of $140.3 million. The public issues have a sinking fund requirement. The Canada Pension Plan issues are for a 20 year period and do not contain sinking fund requirements.

10.13 The Province issued $200 million in public debentures; $100 million in September, 2004 and an additional $100 million in February, 2005. These debentures carry interest rates of 5.7 percent and 5.3 percent and will mature in June 2035 and May 2036. The contributions to the sinking fund for these issues are 1.25 percent per annum.

10.14 At March 31, 2005, the Sinking Fund for debentures held net assets of $188.6 million.

10.15 The Debt Reduction Fund was established in June 2001 for the purpose of retiring debt and reducing interest costs. The debt reduction fund was reduced to zero during the year. The activity of the Debt Reduction Fund for the year is as follows:

DEBT REDUCTION FUND
SUMMARY OF FINANCIAL ACTIVITY
(Millions)

	2004-05
Balance, April 1, 2004	$41.1
Investment income	.6
Payment of debentures	(41.7)
Balance, March 31, 2005	$ 0

PEI Master Trust

10.16 Investments of the Civil Service Superannuation, Teachers' Superannuation and MLA Pension Funds are consolidated into the Province of PEI Master Trust. Individual funds receive units in the Master Trust based on the net contributions and allocated shares of income and expense. The investments are managed by investment managers external to government and an external custodian is responsible for accounting and record keeping. An Investment Advisory Committee, with representation from government and plan members, provides assistance to Provincial Treasury with the investment of the fund assets. The Fiscal Management Division of Provincial Treasury is responsible for overseeing the Master Trust.

10.17 A policy framework for investment of fund assets was developed and approved by Executive Council for implementation as of April 1, 2002. The asset mix is based on a targeted 65/35 split between equities and fixed income investments. The framework provides investment targets in non-Canadian equities of 40 percent of the asset mix.

10.18 At March 31, 2005, the pension fund assets as reported by the custodian were $831 million. The following table provides a breakdown of the Master Trust investments as of March 31, 2005 with

comparative information at March 31, 2004. The balance includes amounts invested with the investment managers and amounts held in individual accounts of the participants.

PEI MASTER TRUST
INVESTMENTS
(Millions)

	Year Ended March 31	
	2005	**2004**
Accrued income	$ 4	$ 4
Canadian short term investments	16	10
Canadian bonds, debentures and notes	274	269
Canadian equity securities	313	344
Foreign equity securities	219	159
Canadian real estate	5	5
	$831	$791

10.19 The investments include amounts which Master Trust fund managers have invested in their own pooled funds. The March 31, 2005 market values of pooled fund investments total $221 million.

10.20 The market value of the pension plan assets held by the Master Trust was $831 million at March 31, 2005 compared to a market value of $791 million at March 31, 2004. The following table illustrates the components giving rise to the change in assets as well as the rate of return on trust assets.

PEI MASTER TRUST
CHANGE IN TRUST ASSETS
(Millions)

	Year Ended March 31	
	2005	2004
Special contributions by Government	$18	$ 18
Interest and dividends	25	24
Market value gains(losses)	22	143
Plan withdrawals and expenses less contributions	(25)	(20)
Total increase	$40	$165
Plan asset rate of return	5.9%	26%

Public Sector Accounting Board

10.21 The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants is responsible for developing generally accepted accounting principles for the public sector. PSAB issues recommendations and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending, and gaining acceptance of accounting and financial reporting practices.

10.22 There have been significant changes to the Province's financial statements over the years as a result of changes to address recommendations of PSAB.

Tangible Capital Assets

10.23 The Province changed its accounting policy for recording the purchase and use of tangible capital assets in 2003-04. This accounting change is in accordance with the recommendations of PSAB. The change affected the Province's financial statements in several ways as follows:

- The costs of tangible capital assets are capitalized on the statement of financial position. In the past capital expenditures were expensed in their entirety on the statement of revenue and expenditure in the year the assets were acquired or constructed.
- Amortization is recorded as an expense on the statement of operations based on the estimated useful service life of the asset. Accumulated amortization is offset against the investment in tangible capital assets to arrive at their net book value.
- The annual cost to acquire or construct tangible capital assets is reflected on the statement of cash flows.
- The statement of revenue and expenditure is replaced by the statement of operations. The statement of financial position is revised to include tangible capital assets. The accumulated deficit of the Province, and an audited schedule of tangible capital assets is included.

10.24 The schedule below shows the comparative balances and changes in the Province's net tangible capital assets.

	Year Ended March 31	
	2005	**2004**
	($000)	($000)
Opening balance at April 1	$577,828	$570,158
Gross acquisitions during the year	31,171	60,387
Federal contributions	(2,360)	(6,610)
Donations	(2,729)	(8,496)
Disposals	(5,198)	(893)
Amortization	(37,718)	(36,718)
Balance at March 31	$560,994	$577,828

10.25 Amortization of $37.7 million has been recorded as a separate line item in the Statement of Operations.

10.26 The 2004-05 Public Accounts includes an audited schedule of tangible capital assets. In the past we identified a number of issues regarding the tangible capital asset schedule which needed further

examination by the Province. Problems were encountered during the course of our audit this year as follows:

- We noted that a large number of land parcels owned by the Province were not included on the schedule of tangible capital assets. These properties were noted as being owned by the Government of PEI in the property tax system but are not included in tangible capital asset land schedules. Additional follow up is required in this area to ensure the land category is complete. A note has been added to the tangible capital asset schedule indicating that historical cost is being gathered for certain land parcels.
- In calculating capital acquisitions and amortization of Crown corporations, the Province records the changes in cost and accumulated amortization for the year as additions and amortization. An analysis of the change is not done to identify disposals and gains or losses on disposals. As a result disposal transactions are not being accounted for properly.
- For constructed assets, inconsistencies were noted in application of the policy of applying 50 percent of the amortization rate in the year of acquisition. The need to use recognition criteria in applying the amortization policy was discussed with the Province.
- The Province has included the cost of roads reported in the Public Accounts since 1959. Over the last 46 years, many of the roads have been rebuilt. In addition most of these roads would be fully amortized resulting in the cost and accumulated amortization balances for roads in the Public Accounts being overstated. It would be more appropriate to include costs over a shorter period of time.

Recommendations

10.27 Historical cost information should be obtained for a number of land parcels.

10.28 The changes in net book value of assets should be analyzed in order to correctly record costs of the disposals, amortization and gains and losses resulting on dispositions.

10.29 The amortization policy should be applied on a consistent basis and should be applied to constructed assets only after assets have been put into useful service.

10.30 Consideration should be given to reducing the period of capitalization for roads.

Inventories

10.31 PSAB recommendations applicable for years beginning on or after April 1, 2005 require inclusion of inventories held for consumption or use as non-financial assets on the statement of financial position. Earlier implementation of the recommendation is encouraged. For the 2004-05 fiscal year the Province has implemented the PSAB recommendation for inventories for consumption or use in the operating fund but the recommendations have not been applied to Consolidated entities.

Recommendation

10.32 PSAB recommendations for recording inventories for consumption or use should be applied to Consolidated entities.

Consolidated Budget Estimates

10.33 In the past we have recommended that Government prepare Consolidated Budget Estimates rather than budgeting for the Operating Fund only. Since the Province's annual surplus or deficit is the main measure of financial performance, financial statement users should be given sufficient information to compare actual results to budget. The Consolidated Financial Statements with corresponding consolidated estimates are a more complete document for understanding and assessing trends in government financial operations and demonstrating public accountability for government's financial performance. Consolidated Budget Estimates were prepared for the first time for the 2003-04 year.

10.34 PSAB Standards set as a basic requirement the inclusion of consolidated budget data with the Public Accounts. To facilitate meaningful comparisons, consolidated budgets need to be prepared and reported on the same basis as that used to prepare the Consolidated Financial Statements. The 2004-05 Budget Estimates were prepared on a consolidated basis but we noted differences in the format used in the Budget and the basis used in the 2004-05 Consolidated Financial Statements. Budgets include the net deficits of Crown corporations as an expenditure in the Budget summary. Proper accounting in the Consolidated financial statements requires inclusion of each Consolidated entity's revenues and expenses rather than the net result. The absence of budgeted revenue and expense information of Crown corporations in budget documents creates difficulties in comparing budget and financial statement information.

Recommendation

10.35 The budget format should be revised to allow for better comparability to financial statements.

Timely Financial Statements

10.36 We continue to stress the importance of releasing the Public Accounts on a timely basis. Financial statements are an important source of information for decision makers. Their usefulness diminishes as time elapses and increased efforts are needed to have financial statements available on a more timely basis. The following schedule provides the dates that the Consolidated Financial Statements for the years ended March 31, 2003, 2004 and 2005 were released for each jurisdiction in Canada.

CONSOLIDATED (SUMMARY) FINANCIAL STATEMENTS RELEASE DATES YEAR ENDED MARCH 31

Jurisdiction	2005	2004	2003
Newfoundland and Labrador	Nov.29, 2005	Nov. 30, 2004	Nov. 18, 2003
Nova Scotia	Sept. 28, 2005	Sept. 30, 2004	Nov. 13, 2003
Prince Edward Island	Jan. 23, 2006	Feb. 03, 2005	Dec. 10, 2003
New Brunswick	Dec. 01, 2005	Nov. 03, 2004	Nov. 21, 2003
Quebec	Dec. 13, 2005	Mar. 22, 2005	Mar. 23, 2004
Ontario	Sept. 27, 2005	Sept. 27, 2004	Nov.21, 2003
Manitoba	Sept. 08, 2005	Sept. 30, 2004	Sept. 30, 2003
Saskatchewan	July 13, 2005	June 29, 2004	July 21, 2003
Alberta	June 29, 2005	June 29, 2004	June 24, 2003
British Columbia	June 29, 2005	June 29, 2004	June 27, 2003
Canada	Sept. 29, 2005	Oct. 13, 2004	Nov. 04, 2003

10.37 The Financial Administration Act requires each reporting entity to have audited financial statements completed within three months of year end and an annual report available to the public within six months of year end. Delays were noted in completion of some entity statements and in the provision of information required for consolidated financial statements.

Recommendation

10.38 The Public Sector Accounting Board recommendations related to inventories, consolidated budget estimates, and timely financial statements, should be followed.

Pension Obligation

10.39 A pension obligation arises when the pension entitlements owed to employees for services rendered exceed pension fund assets. The Province recorded this obligation in the Public Accounts for the first time on March 31, 1994. The amount of the obligation at that time was $345 million. To address this problem in 1995-96, the Province made the first payment on $197 million in additional funding to be provided over ten years to the Teachers' and Civil Service Superannuation Funds. The last additional payments to the Teachers'

and Civil Service Superannuation Funds of $12.1 million and $5.9 million respectively were made on April 1, 2004. The additional payments, along with high rates of return on pension fund investments and increased contribution rates, helped reduce the obligation to $126.4 million at March 31, 1998. However, pension plan amendments and declines in investment returns have caused further increases in the obligation. The pension obligation in this report is prepared based on the information presented in the Public Accounts.

10.40 The Public Accounts have reported the following total pension obligations during the past five years:

	Year Ended March 31 (Millions)				
Date of Valuation	2005	2004	2003	2002	2001
Pension fund liabilities	$1048.8	$1,001.8	$955.6	$898.7	$909.2
Pension fund assets	831.8	791.1	626.6	744.8	680.4
Unfunded pension liability	$ 217.0	$ 210.7	$329.0	$153.9	$228.8

10.41 Decreases in pension assets of $118.2 million in the 2003 year were offset by a $164.5 million increase in asset values in 2004 and a $40.7 million increase in 2005. A performance review report prepared by consultants for the Master Trust reported annualized returns of 8.8 percent over a 10 year period to March 31, 2005. Returns for 2005 were 5.9 percent while returns reported for the four year period of 2001-2005 were 5 percent, substantially below the reported 10 year rate. Investment returns are a key variable in the magnitude of the pension obligation.

10.42 Pension obligations are calculated on an actuarial basis every three years. During the interim period, liabilities are estimated by the Province by extrapolating the data from the most recent valuation. Projections were used in calculating the liabilities at March 31, 2005. Actuarial valuations were carried out for the Teachers' Superannuation Fund and the Civil Service Superannuation Fund as of April 1, 2002 and for the MLA Pension Funds as of April 1, 2003. Actuarial valuations as of April 1, 2005 for Teachers' Superannuation Fund and Civil Service Superannuation Fund have not yet been completed.

The following values were reported by the actuary as of the valuation dates:

	(Millions)			
	TSF	CSSF	Prior MLA	New MLA
Date of Valuation	Apr.1/02	Apr. 1/02	Apr. 1/03	Apr.1/03
Pension fund liabilities	$440.6	$442.2	$12.5	$2.0
Pension fund assets	287.0	436.1	16.3	1.6
Unfunded pension liability	$153.6	$ 6.1	$ (3.8)	$ .4

10.43 The Public Accounts report the following pension obligations for the Teachers' Superannuation Fund (TSF); Civil Service Superannuation Fund (CSSF); MLA Pension Funds (MLA); and other Pension Plans at March 31, 2005:

	Year Ended March 31, 2005 (Millions)				
	TSF	CSSF	MLA	Other	Total
Pension fund liabilities	$495.7	$524.5	$14.6	$14.0	$1,048.8
Pension fund assets	308.7	502.1	21.0	-	831.8
Unfunded pension liability	$187.0	$ 22.4	$ (6.4)	$14.0	$ 217.0

10.44 The Teachers' Superannuation Fund accounts for approximately 86 percent of the Province's total pension obligation. In the past we have stressed the need for a long term plan to address this liability. The 2005 budget address announced that over the next ten years the Province will make special payments of $16 million per year to the Teacher's Superannuation Fund.

Federal Revenue

10.45 During the year the Province received $18.2 million in federal funding related to the Wait Times Trust. The Province recorded $2.7 million as revenue in 2005 and recorded $15.5 million as deferred revenue. We had concerns regarding the accounting treatment applied to the Wait Times Trust receipts based on application of criteria in the PSAB handbook and on the basis of inconsistences with accounting treatment applied to past federal transfers where trust agreements were similar. Our research on the issue noted variations

among other Provincial jurisdictions in accounting treatment for receipts under the Wait Times Trust. The PSAB standards board is currently researching the area of accounting for government transfers.

10.46 We have commented in past years on problems with timely receipt of amounts due from the federal government. The Public Accounts Consolidated statements report receivables from the federal government of $32 million at March 31, 2005 down from $34 million at March 31, 2004. The following table summarizes a number of programs we identified as having substantial balances receivable at March 31, 2005 which were still outstanding as at December 31, 2005:

LARGER FEDERAL RECEIVABLES BALANCES STILL OUTSTANDING AS AT DECEMBER 31, 2005 ($000)

	Receivable Mar. 31/05	Cash Receipts Apr.1/05 to Dec. 31/05	Outstanding Dec. 31/05	
Disaster Assistance				
Re: March 2003 flooding	$ 315	$ -	$ 315	**Note 1**
September 2003 Hurricane Juan	566	-	566	**Note 2**
	881		881	
Official Languages in Education	4,211	$ 2,091	2,120	**Note 3**
Labour Market Development	3,143	2,105	1,038	**Note 4**
Infrastructure Program	2,906	1,962	944	**Note 5**
Promotion of Official Languages	3,297	2,454	843	**Note 6**
Youth Justice Services	3,935	3,297	638	**Note 7**
	$18,373	$11,909	$6,464	

Note 1	2003-04	$315		
Note 2	2003-04	$566		
Note 3	2003-04	$929	2004-05	$1,191
Note 4	2004-05	$1,038		
Note 5	2004-05	$944		
Note 6	2004-05	$843		
Note 7	2004-05	$638		

10.47 Discussions with departmental staff indicated that in most of the above cases claims had not been completed as of December 31, 2005. Due to the magnitude of federal revenue, delays in collection have a significant negative impact on cash flow.

10.48 During the audit of the Public Accounts, the Comptroller's office made correcting adjustments of $1.0 million to federal revenues which we identified during our audit of the Public Accounts that had not been previously recorded in the Provinces's books as revenue.

Recommendations

10.49 Steps should be taken to ensure all revenues from the federal government are identified and reported in the Province's financial statements.

10.50 All revenues from the federal government should be claimed and received on a timely basis.

Guaranteed Debt

10.51 Over the past five years the Province has reported the following guaranteed debt balances on the Guaranteed Debt Schedule.

	Year Ended March 31 (Millions)				
	2005	2004	2003	2002	2001
Per Schedule	$133.6	$99.4	$82.6	$47.2	$42.9
IIDI Guaranteed Amounts*	-	-	13.4	8.5	2.9
	$133.6	$99.4	$96.0	$55.7	$45.8

*Not shown on the Guaranteed Debt Schedule in previous years.

10.52 Guaranteed balances increased by $34.2 million over the previous year. For 2005, balances of $50.5 million (2004-$19.8million) relating to Island Investment Development Inc.'s Century 2000 Fund notes payable to the Minister of Citizenship and Immigration have been included in the Guaranteed Debt Schedule. This guarantee was not included on the Guaranteed Debt Schedule prior to the 2004 year. For the 2002 and 2003 years, the amounts were reported in a financial statement note but not included in the Guaranteed Debt Schedule.

10.53 In addition to an increase of $30.7 million in balances guaranteed on IIDI's Century 2000 Fund notes payable, there was an increase of $3.4 million in guaranteed balances relating to Capital Area Recreation Inc and increases of $4.1 million and $.5 million in student loan and Prince Edward Island Grain Elevators Corporation guarantees. These increases were offset by decreases of $4.3 million in various other guaranteed debt balances.

10.54 In 2001, as a result of changes in the student loan program, the Province began guaranteeing all student loans issued through the PEI Student Loans Program. Guarantees under the new Student Loans Program were $15.5 million at March 31, 2005.

10.55 The Province has included provisions for losses of $3.6 million on the guarantees. Schedule 23 of the Public Accounts shows a continuity schedule for the Provision for Doubtful Accounts.

10.56 In addition to the balances noted above, note 7(c) to the Consolidated Financial Statements provides information on the guarantee to the Credit Union Deposit Insurance Corporation. This guarantee has been disclosed in the Public Accounts notes but has not been included on the Guaranteed Debt Schedule in the Public Accounts. Based on unaudited information, Prince Edward Island credit unions held insurable deposits of $433.3 million at September 30, 2004.

Cancellation or Discharge of Debt

10.57 Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, debts or monies due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. In 2004-05, the amount cancelled or discharged under Section 26 totalled $5,829,042 and the amount written off under Section 26.1 was $1,423,066 as follows:

	Section 26(1)	Section 26.1(1)
Revenue Tax Act	$ -	$ 819,992
Environment Tax Act	-	279
Social Assistance Act	264,777	-
Real Property Tax Act	119,252	-
Lending Agency	4,842,218	-
PEI Business Development	602,795	602,795
	$5,829,042	$1,423,066

The net amount discharged, cancelled and released or written off owed by third parties to the Province was $6,649,313. The amounts relating to PEI Business Development Inc. include a write off of debts owed by various businesses to PEI Business Development Inc. in the amount of $602,795 and a corresponding cancellation of amounts owed by PEI Business Development Inc. to the Province in the amount of $602,795.

Surplus (Deficit) of Crown Agencies and Corporations

10.58 Section 16 of the Audit Act requires the Auditor General to include information in the Annual Report on deficits of agencies not covered by appropriations in the year in which they have been incurred, and any surpluses not paid into the Operating Fund in the year in which they are earned. For information purposes we have also included the cumulative surplus or deficit for each entity.

AGENCY	Annual Surplus(Deficit) For the Year	Cumulative Surplus (Deficit)
Advisory Council on the Statue of Women	$ (365)	$ 1,246
Agricultural Insurance Corporation	550,458	9,068,580
Agricultural Research Investment Fund Inc.	(28,667)	1,186,933
Aquaculture and Fisheries Research Initiative Inc.	(122,688)	648,921
Business Development Inc.	(5,599)	1,612,983
Charlottetown Area Development Corporation	(351,520)	3,923,049
Eastern School District	530,209	-
Energy Corporation	542,086	2,639,814
French Language School Board	(64,495)	25
Grain Elevators Corporation	112,468	538,087
Human Rights Commission	(19,516)	(21,950)
Island Investment Development Inc.	482,247	157,177
Island Waste Management Corporation	3,545,134	-
Museum and Heritage Foundation	(67,633)	640,427
Self-Insurance Fund	21,995	7,202,361
Special Projects Fund	(203,481)	1,083,346
Summerside Regional Development Corporation Ltd.	(570,559)	512,163
Tourism P.E.I.	(771,637)	(1,229,975)
Western School Board	587,040	5
Workers Compensation Board	14,421,121	(12,731,823)

MANAGEMENT RESPONSE

10.59 These matters have been discussed with management.

11. APPROPRIATIONS

INTRODUCTION

11.1 Our audit of Appropriations for the year ended March 31, 2005 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature and special warrants approved by Executive Council on the recommendation of Treasury Board.

11.2 The Appropriations Act provides the spending authority for government and is approved by the Legislative Assembly annually. Appropriations for 2004-2005 were approved in the Appropriation Act 2004. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor in Council.

11.3 In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the Appropriation Act 2004.

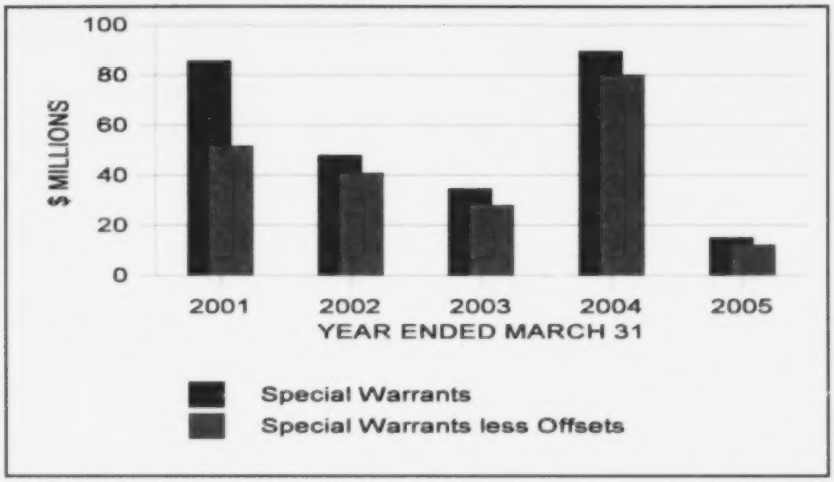
SPECIAL WARRANTS

11.4 Section 16(h) of the Audit Act requires me to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE B** attached to this report.

11.5 For the 2004-05 fiscal year, special warrants totalled $14.9 million compared to $89.4 million in 2003-04. Of the special warrants issued for 2004-05, $2.4 million were offset by revenue and $0.4 million was offset by funds sequestered from appropriations. The result was a net increase in provincial appropriations of $12.1 million. As of February 15, 2006, three departments have overexpenditures of $411,331, $152,997 and $30,072,499 for the 2004-05 year. A portion of these overexpenditures relate to salary negotiations and can be covered by the transfer of funds already budgeted in General Government. Special warrants have not been issued for the balance. These amounts are not included in the totals above.

11.6 Exhibit 11.1 indicates the gross special warrants and special warrants net of any offsets for the last five years.

EXHIBIT 11.1
SPECIAL WARRANTS



Delay in Issuing Special Warrants

11.7 Normally no expenditure should be incurred unless it is provided for by an appropriation. At year end, adjustments may be necessary to ensure the financial statements present fairly the revenues and expenditures of the Province. When this occurs, it would be expected that a special warrant would be issued on a timely basis for any overexpenditures.

11.8 In 2002-03 and 2003-04 we reported a delay in preparing special warrants for year end adjustments. During our audit for the year ending March 31, 2005, we noted three departments had overexpenditures as noted in paragraph 11.5 and no special warrants had been issued as of February 15, 2006. Most of the overexpenditures relate to adjustments made in October, November and December 2005.

Recommendation

11.9 Special warrants should be issued on a timely basis.

General Government Transfers

11.10 Section 37.2 of the Financial Administration Act provides for the transfer of salary increases from General Government to the various government entities. Section 37.2 states

> *(1) "When the Treasury Board has approved collective agreements which include salary increases for public sector employees, the Lieutenant Governor in Council may approve the transfer of monies appropriated to general government for such purposes and to such departments listed in Schedule A or to Crown corporations listed in Schedule B, as it considered appropriate."*
>
> *(2) "The Provincial Treasurer shall report all transfers of monies pursuant to subsection (1) to the Legislative Assembly as soon as practicable."*

11.11 We noted that transfers totalling $6.4 million were approved by a Decision of Executive Council rather than an Order In Council. As per our previous correspondence with management, proposed revisions to this section of the Act were to be provided to the Legislative Assembly to clarify whether an Order In Council is necessary. To date there has been no change to this section of the Act.

Recommendation

11.12 A review of Section 37.2 of the Financial Administration Act should be carried out to ensure the appropriate documentation is being prepared for appropriation transfers.

MANAGEMENT RESPONSE

11.13 We have discussed our findings with management.

UPDATE ON PREVIOUS RECOMMENDATIONS

12. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

12.1 At the conclusion of each special audit, we provide a report including recommendations designed to improve the management and administration of government operations and programs. It is management's prerogative to select the best course of action to address the problems identified. We are primarily concerned that all recommendations are being addressed by management.

12.2 Each year, we request information from departments and agencies on the status of action taken to address outstanding recommendations. Normally this information consists of correspondence from the Deputy Minister or Chief Executive Officer of the organization. We do not always further verify or check the information received, however, we do review the responses for reasonableness. In most cases it is more cost-effective to do detailed verification during the next scheduled audit.

12.3 Following is summary information provided to us on the status of recommendations from the special audits and examinations reported in the 2005 Annual Report of the Auditor General as well as outstanding recommendations from audits in the 2004, 2003, and 2002 Annual Reports.

PROVINCIAL DRUG PROGRAMS

12.4 Following are the recommendations resulting from our examination of Provincial Drug Programs as presented in the 2005 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Social Services and Seniors.

Auditor General's Recommendation	Status/Management Response
Objectives for each drug program should be documented and clearly defined in measurable terms.	The programs are currently being reviewed in order to determine clearly defined and measurable objectives. These objectives will be in place by the end of 2005-06.
Key performance indicators should be developed with a focus on program outcomes and the results reported publically on at least an annual basis.	Key performance indicators are being developed for each program and will be reported in the drug programs section of the Department of Social Services and Seniors annual report.
Program results should be reviewed regularly, compared to objectives, and corrective action taken when required.	Program statistics are reviewed on a monthly basis.
Drug programs should be evaluated on a cyclical basis.	Development of a comprehensive evaluation of the drug programs will be undertaken once the reorganization of the Department of Social Services and Seniors is completed and a Program Evaluation Workplan including Pharmacy Programs can be developed.
The Department should review the five percent mark up on generic drugs.	The Pharmaceutical Association did not agree to this change during negotiations for a new pharmacy services agreement.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Department should determine whether standing offer contracts can be used to achieve cost savings.	Work is currently being done through the National Pharmaceutical Strategy announced by the First Ministers in September 2003. A report is expected by June 30, 2006.
The Department should review the wholesale markup with the objective of negotiating a lower percentage markup with retail pharmacies.	The PEI Pharmaceutical Association did not agree to this change during negotiations for a new pharmacy services agreement.
The timing of increases in drug prices should be reviewed.	Work on this issue is underway.
The Department should consider introducing a cap on the markup for drugs costing over $45.	The new pharmacy services agreement between government and the PEI Pharmaceutical Association includes a $50 cap on the markup for prescriptions with a paid drug cost between $45 and $1000 and a $150 cap on the markup for prescriptions with a paid drug cost of more than $1000.
The Department should further explore Reference Drug Pricing.	The Department plans to advise Government regarding key elements of reference based drug pricing in the 2006-07 fiscal year after consultation with the PEI Pharmaceutical Association and the Medical Society of PEI.
The Department should require retail pharmacies to file their dispensing fees annually.	The new pharmacy services agreement requires pharmacies to file their usual and customary charges annually or when there is a change.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Department should monitor prescribing patterns to identify and follow up unusual practices.	Work with the Department of Health, the PEI College of Physicians and Surgeons, and the PEI Pharmacy Board will take place during the winter of 2005-06. The Department of Social Services and Seniors will be reviewing the prescribing practices for financial assistance clients.
The Department should develop procedures to monitor and analyse drug use and take corrective action as necessary.	Work with the Department of Health, the PEI College of Physicians and Surgeons, the Medical Society of PEI, the PEI Pharmacy Board and the PEI Pharmaceutical Association will begin during the winter of 2005-06.
The Department should ensure that only eligible Financial Assistance clients receive drug benefits.	This issue has been identified and a permanent solution will be implemented in PhIP in 2005.
The Department should conduct rotational audits of pharmacies on an annual basis.	Work continues on this recommendation.

ISLAND WASTE MANAGEMENT CORPORATION

12.5 Following are the recommendations resulting from our examination of the Island Waste Management Corporation as presented in the 2005 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Corporation.

Auditor General's Recommendation	Status/Management Response
A competitive process should be followed when acquiring professional services.	IWMC tenders or requests pricing for all major services and or products.
The IWMC should request the final inspection report from the Project Manager.	IWMC had a meeting with the Project Manager and was satisfied that all deficiencies were completed.
The IWMC should request the Project Manager to issue the total performance certificate.	A Total Performance Form was obtained from the design builder and the design builder consultant.
As the basis for seeking approval for fee increases, the IWMC should review its analysis of cost allocations between user groups.	All future rate adjustments will be approved by the Island Regulatory and Appeals Commission
A long -term strategy should be developed to address the projected financial deficit of IWMC.	IWMC's accumulated debt has been eliminated and direction has been given to balance future financial requirements through an application process to the Island Regulatory and Appeals Commission.

Auditor General's Recommendation	Status/Management Response
As contracts expire the IWMC should review the options for obtaining the best quality service at the most economic cost. This should include: • Ensuring the requirements of the Atlantic Procurement Agreement are followed; • Reviewing Treasury Board's policy on Professional Services; • Understanding the costs of collection in a specific geographic area; • Obtaining prices for comparable services in other regions; and • Re-evaluating the procurement options including tendering.	Renewal of existing contracts will be based on understanding costs associated with collection in certain geographic areas and evaluation of options, including tendering.
The IWMC should prepare and submit to the Department of Environment, Energy and Forestry an overall plan for the decommissioning and ongoing monitoring of currently used and closed landfills.	IWMC, the Department of Transportation and Public Works, and the Department of Environment Energy and Forestry are working to prepare a plan to have all former landfills decommissioned. Currently IWMC monitors water in recently closed landfills. Annual monitoring reports are provided to the Department of Environment Energy and Forestry on current and former landfills.
The estimated future decommissioning costs of landfills currently used by the IWMC should be included in submissions for approval of user fee rates.	IWMC accounts for future decommissioning costs in its financial statements and current fees include costs associated with decommissioning.
The IWMC should submit a funding request to the Department of Transportation and Public Works for the decommissioning and monitoring costs of closed landfills.	IWMC submits expenditures associated with decommissioning and/or monitoring of former landfills to the Department of Transportation and Public Works.
Interim financial statements should be provided to the Board of Directors on a regular basis.	Interim Financials are provided to IWMC Board Members on a regular basis.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Options for user fee changes should be presented to the Board of Directors for approval prior to requesting the approval of the Minister of Transportation and Public Works or Executive Council.	All future rate adjustments will be approved by the Board of Directors of IWMC prior to being sent to the Island Regulatory and Appeals Commission for approval.
The IWMC should request Treasury Board to resolve the issue of the outstanding $.9 million loan due to the Province.	IWMC has resolved the $.9 million outstanding loan to the Province.
The management of IWMC should prepare a strategic plan for Board approval.	A strategic plan will be presented to IWMC's Board of Directors.

CELLULAR TELEPHONES

12.6 Following are the recommendations resulting from our examination of Cellular Telephones as presented in the 2005 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of the Provincial Treasury.

Auditor General's Recommendation	Status/Management Response
Cellular telephones should be monitored regularly by departments to ensure the air time packages purchased are the most economical.	Treasury Board Policy has been amended to clarify department responsibility and accountability in this area.
In accordance with Treasury Board policy, ITMG should maintain an accurate inventory of cellular telephones for all government departments and agencies.	ITMG has a system in place that can maintain an accurate inventory of cellular telephone information. A procedure has been put in place to ensure that cellular telephones can only be purchased by ITMG.
Departments and agencies should ensure that the personal use of cellular telephones is limited.	As per Treasury Board Policy, departments and agencies are required to monitor and manage personal use of a cell phone.

GOVERNMENT'S INVOLVEMENT WITH POLAR FOODS INTERNATIONAL INC.

12.7 Following are the recommendations resulting from our work on Government's Involvement with Polar Foods International Inc., as presented in the 2005 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from the Provincial Treasurer.

Auditor General's Recommendation	Status/Management Response
Government, in conjunction with industry representatives, should develop a long-term strategy for the lobster processing industry on Prince Edward Island.	The Departments of Agriculture, Fisheries and Aquaculture and Development and Technology continue to consult with processors and fishermen to determine areas for improvement.
Where major investments are made by PEI Business Development Inc. (PEIBDI), the project evaluation should include an assessment of the risk of the project and an analysis of key financial records supporting the investment.	All major investments will include an assessment of the risk of the project and an analysis of key financial records supporting the investment.
When economic development proposals are presented to Treasury Board and Executive Council for approval, the information provided should be sufficient to provide an understanding of each aspect of the proposal.	PEIBDI submissions will include sufficient information to provide an understanding of each aspect of the proposal.
Specific reporting requirements included in financial assistance agreements should be enforced.	PEIBDI now has a contract compliance officer responsible for tracking requirements and keeping project officers informed.
PEI Business Development Inc. should provide payroll information on Polar Foods to allow an audit to be conducted on payroll as required in the preferred share agreement.	Done

Auditor General's Recommendation	Status/Management Response
Each loan guarantee should be documented with a letter of offer provided to the client setting out the terms and conditions of the guarantee and establishing the client's acceptance.	A policy is in place and will be enforced.
When Executive council requests Treasury Board to review financial assistance prior to renewal, it should be submitted as required.	This is the practice of PEIBDI and will be enforced.
PEI Business Development Inc. should ensure that requirements and conditions of financial assistance are complied with.	PEIBDI now has a contract compliance officer responsible for tracking requirements and informing project officers.
Where PEI Business Development Inc. approval is required before a client enters into an agreement with a third party, BDI should ensure the terms of the agreement are in the best interests of their client before providing such approval.	Where PEIBDI approval is required before a client enters into an agreement with a third party, BDI will continue to review the agreements to determine if the terms of the agreement are in the best interest of their client.
PEI Business Development Inc. should ensure that the terms and conditions of financial assistance are complied with.	PEIBDI now has a contract compliance officer responsible for tracking terms and conditions and informing project officers.
The Board of Directors of BDI should meet on a regular basis.	The PEIBDI Board meets quarterly on a regular basis.
Requests for substantial support through PEI Business Development Inc. should be approved by the Board of Directors with a recommendation to Treasury Board and Executive Council where appropriate.	PEIBDI has established a regulation requiring all loans in excess of $1 million to be approved by Treasury Board. The regulation requires Executive Council approval by an Order in Council for loans in excess of $2.5 million.

Auditor General's Recommendation	Status/Management Response
Government should consider establishing regulations to the PEI Business Development Inc. Act which require Lieutenant Governor in Council approval for financial assistance over an established maximum.	PEIBDI has established a regulation requiring all loans in excess of $1 million to be approved by Treasury Board. The regulation requires Executive Council approval by an Order in Council for loans in excess of $2.5 million.
Where transactions are large in magnitude and not in the normal course of operations for government, they should be authorized in advance by Executive Council.	PEIBDI has established a regulation requiring all loans in excess of $1 million to be approved by Treasury Board. The regulation requires Executive Council approval by an Order in Council for loans in excess of $2.5 million
The requirements of the *Financial Administration Act* should be followed.	PEIBDI has established a regulation requiring all loans in excess of $1 million to be approved by Treasury Board. The regulation requires Executive Council approval by an Order in Council for loans in excess of $2.5 million
Where BDI's consent is required for clients to make capital transactions, management of BDI should have assurance that legislative requirements are being complied with.	PEIBDI will obtain legal advice and advise clients in such situations.
A forensic audit should be conducted on the operations of Polar Foods International Inc. for the period commencing with the signing of the marketing agreement to February 27, 2004.	Cabinet authorized the Auditor to proceed.
The write off and cancellation of amounts due to the Province should be approved by Executive Council.	As necessary per the *Financial Administration Act*.

CROWN AGENCIES - CONTROL AND ACCOUNTABILITY

12.8 Following are the outstanding recommendations resulting from our examination of Crown Agencies - Control and Accountability, as presented in the 2004 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of the Provincial Treasury.

Auditor General's Recommendation	Status/Management Response
The governance structure for the Provincial Health Services Authority should be revised and brought in line with similar Crown agencies in the public sector.	The governance structure for delivery of Health programs has been revised and the Provincial Health Services Authority has been eliminated.
Each Crown agency board should develop and document guidelines on the desirable qualifications and attributes of prospective board members.	Treasury Board staff will be reviewing these recommendations and providing Treasury Board with a plan of action in the next six to ten months.
Each CEO should have a formal performance evaluation conducted by the board of directors on a periodic basis.	Same as above.
Boards of directors should fulfil the responsibilities as set out in the enabling legislation of the Crown agency as well as the general responsibilities of corporate directors.	Same as above.
An audit committee should be appointed for each Crown agency or, where not appointed due to size, the board of directors should carry out the responsibility.	Same as above.
Treasury Board should develop requirements for corporate governance applicable to all Crown agencies.	The degree to which Treasury Board wishes to exercise control over Crown expenditures has to be revisited.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The purpose and objects of Crown agencies should be reviewed periodically to determine whether the agencies are of ongoing need and reflect the current intentions of government.	With the elimination of the regional health boards, a significant portion of total provincial expenditures have once again been placed directly under the control of government.
Executive Council should establish a corporate planning process for all Crown agencies which includes at least the following: • a corporate plan approved by the board of directors; • endorsement by the Minister responsible; • review and approval by Treasury Board and/or Executive Council; • release to the Legislative Assembly in conjunction with the budget approval process; and • linkage to the corporate annual report.	Treasury Board staff will be reviewing these recommendations and providing Treasury Board with a plan of action in the next six to ten months.
The Appropriation Act should be reviewed for consistency with respect to agency size and accountability.	The Appropriation Act has been revised with respect to agency size and accountability.
Information provided to the Legislature for Crown agencies should include budgets showing revenues and expenditures of the agency and its subsidiaries, arriving at a net revenue item or net appropriation required.	The Budget Estimates now include the budgeted bottom line results for consolidated Crowns. Preparing the province's Public Accounts and Budget Estimates on a consolidated basis has enhanced the process. Changes have been made to the level of detail provided for significant Crowns.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
In addition to budgets by program area for health authorities and school boards, the Budget Estimates should at a minimum provide supplementary information showing budgeted revenues and expenditures by health authority and school board.	Supplementary information for the budget process will be considered.
The creation of subsidiaries should require formal approval by Executive Council and the governance and accountability structures should be clearly defined when the subsidiaries are created.	Treasury Board staff will be reviewing these recommendations and providing Treasury Board with a plan of action in the next six to ten months.
Treasury Board should establish standards for subsidiary corporations regarding reporting on program performance and financial results.	Same as above.
Each annual report should provide clearly stated goals endorsed by the board of directors and the Minister responsible.	Crown corporations have been encouraged to provide and release annual reports that comply with existing regulations/policies.
Each annual report should demonstrate the relationship between the goals of the Crown agency, the activities carried out and the results achieved.	Same as above.
Annual reports should include an explanation for significant variances from expected performance, both favourable and unfavourable.	Same as above.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Each Crown agency identified in the Financial Administration Act should provide an annual report within six months of its financial year end in accordance with the requirements of the Act.	Applying the existing General Government reporting process to all Crowns will be a significant change for some entities and will require considerable effort on their part.
Annual reports of Crown agencies should be referred to a Standing Committee for review of agency performance.	Treasury Board staff will be reviewing these recommendations and providing Treasury Board with a plan of action in the next six to ten months.

INFORMATION TECHNOLOGY SECURITY REVIEW

12.9 Following are the recommendations from our Information Technology Security Review as presented in the 2004 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of the Provincial Treasury.

Auditor General's Recommendation	Status/Management Response
Treasury Board should ensure that the responsibilities for IT security, as outlined in Treasury Board policy, are being complied with.	Government has recently announced an initiative to rationalize, consolidate and modernize provincial government IT services within a shared services model. Identified in the model is a program management division responsible for developing and enforcing IT security, policies and standards.
Departments and agencies should develop information technology security policies and procedures which address their specific information technology applications.	The Information Technology Governance Council (ITGC) and the new shared services IT division will work closely with departments and information management staff to review the delineation of roles and responsibilities and develop applicable policies and standards.
Departments and agencies should follow the information categorization system required in Treasury Board policy.	ITGC and the new shared services IT division will work with departments and staff across government to implement a standardized approach to the categorization of information and related systems.
Policies should be developed to ensure data shared with other departments and agencies is adequately protected.	ITGC and the new shared services IT division will develop policies and standards.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The physical security over computer equipment and software should be reviewed to ensure the exposure to damage and loss is minimized.	Consultation between risk management and IT security personnel is ongoing in an effort to reduce exposure to equipment loss or damage. This process will become more formalized with the establishment of the new shared services IT division.
Policies should be developed to ensure computer program changes are adequately controlled.	A formal change management process was established in the IT Management Group and consideration will be given to establishing a similar process in the new shared services IT division.
A standard section relating to the security of data should be developed and included in all service level agreements with external service providers.	ITGC and the new shared services IT division will develop applicable policies and standards. In the interim a procedures manual was developed by the IT Security Coordinators which contains requirements for third party access to government networks, computing resources and information systems.
A formal policy should be developed and implemented regarding arrangements with external service providers. At a minimum, the policy should allow for the monitoring of service providers with access to sensitive information and provide for the review of security procedures by government staff.	ITGC and the new shared services IT division will develop applicable policies and standards. In the interim, a remote access procedures manual developed by the IT Security Coordinators contains requirements for third party access to government networks, computing resources and information systems.
A process should be implemented to log all traffic between government entities and external service providers. These logs should be reviewed on a periodic basis to ensure access is appropriate.	Applicable policies and standards will be developed. In the interim more rigor is being applied to the review of firewall, server and intrusion detection logs for inappropriate activity.

12. Update on Previous Recommendations

Auditor General's Recommendations	Status/Management Response
The Information Technology Management Group should develop a formal service level agreement to clearly define its role and responsibilities in providing services to departments and agencies.	ITGC and the new shared services IT division will develop formal service level agreements that will clearly define the Division's role and responsibilities in providing services to departments and agencies.
Departments and agencies should ensure that a contingency plan exists for all systems which are critical to their continuous operation. The plan should specify the acceptable recovery time for each system, indicate arrangements for replacement systems, identify a testing plan, indicate staff training requirements and indicate offsite storage for the plan.	ITGC and the new shared services IT division will work with risk management personnel to assist departments and agencies in developing contingency plans for critical information systems and infrastructure.

CONSTRUCTION OF THE ATLANTIC TECHNOLOGY CENTRE

12.10 Following is the outstanding recommendation resulting from our audit of the construction of the Atlantic Technology Centre which was presented in the Auditor General's 2004 Annual Report. The status of implementation of the recommendation is provided based on information received from management of PEI Business Development.

Auditor General's Recommendation	Status/Management Response
Information should be presented to Executive Council on the results achieved in relation to the objective of employment creation at the Atlantic Technology Centre.	The 2004 survey results were presented to Executive Council. After the 2005 survey is completed the results will be shared with Executive Council.

GOVERNMENT GARAGES

12.11 Following are the outstanding recommendations resulting from our audit of the Government Garages presented in the Auditor General's 2004 Annual Report. The status of implementation of these recommendations is presented based on information received from management of the Department of Transportation and Public Works.

Auditor General's Recommendation	Status/Management Response
The Government Garages should prepare standard fuel usage reports and review for unusual items.	The Highway Maintenance Division has reviewed and improved the way data is entered. This will allow management to generate more useful reports and management information.
The Government Garages should use the FleetAnywhere System to prepare standard management reports on a regular basis for each location.	Management agrees this is a priority. It is anticipated that the necessary upgrades to the server and the software will be made within the next nine months.
The time spent doing work on assigned tasks should be separately identified from other time charged to shop work orders.	Tracking assigned and unproductive time will be addressed when additional management reports can be produced after the server and software are upgraded.
The Government Garages should reconcile the hours of work paid against time entered to FleetAnywhere.	With the updated reporting system, Government Garages will be able to reconcile hours of work against time entered to FleetAnywhere.
The Government Garages should update their mechanic staffing formula. It should consider facility and equipment limitations, and the allocation of work to other garage locations.	Recent workforce reduction incentives have resulted in a number of staff changes. In addition a recommendation of Program Renewal has been to amalgamate provincial school bus repair and maintenance with the Government Garage operations. As a result, there is much work to be done including the review of labour utilization ratios.

WATER MANAGEMENT DIVISION

12.12 Following are the outstanding recommendations resulting from our audit of the Water Management Division as presented in the 2004 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Environment, Energy and Forestry.

Auditor General's Recommendation	Status/Management Response
The Strategic Plan should be updated and approved by the Department of Environment and Energy.	The Division has completed a draft Provincial Water Policy Document. The intention is to engage the public in a discussion on the future management and protection of the Province's water resources. A strategic plan has not been completed for the Department.
Indicators should be developed for each of the Division's goals so that results achieved can be measured and reported.	Currently the Division reports on the status of the quality and quantity of our water resources through the web site, annual reports and the State of the Environment Report. No new goals or measures have been implemented.
A watershed management strategy should be completed which includes an assessment for each watershed and a plan to ensure the watersheds are protected.	There are currently five watershed management planning pilots underway and work continues on capacity building with community watershed groups.
The Division should establish a policy for setting laboratory testing fees.	A study regarding the best methodology for setting laboratory fees has been completed. The Department is working on implementing the recommended model.

FEDERAL CLAIMS

12.13 Following are the outstanding recommendations resulting from our audit of Federal Claims as presented in the Auditor General's 2004 Annual Report. The status of implementation of the recommendations is based on information received from management of the Department of the Provincial Treasury.

Auditor General's Recommendation	Status/Management Response
Provincial Treasury should provide direction to departments regarding their role and responsibility related to the preparation, monitoring and accounting for federal/provincial claims.	As part of the year end work, the Office of the Comptroller contacts departments in the last quarter directing that all financial transactions relating to the fiscal year be processed prior to year end, and where this is not possible to advise his office.
All claims under federal/provincial contribution agreements should be submitted and collected on a timely basis.	Treasury Board recently approved the staffing of a position in the Office of the Controller which will improve monitoring and accounting for federal/provincial claims.

THE GOVERNANCE STRUCTURE OF THE CREDIT UNION DEPOSIT INSURANCE CORPORATION UNDER THE REGULATORY FRAMEWORK FOR CREDIT UNIONS

12.14 Following are the outstanding recommendations from our review of the Governance Structure of the Credit Union Deposit Insurance Corporation under the Regulatory Framework for Credit Unions as presented in the 2003 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from the Office of the Attorney General.

Auditor General's Recommendation	Status/Management Response
The Credit Unions Act should be revised to require Board members to hold office for a specified term.	The Board of CUDIC continues to work toward the implementation of this recommendation.
Eligibility requirements for the appointment of members to the Board of Directors of the Credit Union Deposit Insurance Corporation should be established and should specifically exclude employees of credit unions, Credit Union Central and CUDIC.	As of June 2005 the Board of CUDIC now has a full slate of Directors.
Guidelines on the desirable qualifications and attributes of prospective Board members should be developed and considered in the nomination process.	The Board of CUDIC continues to work towards implementation of this recommendation.
The Board should establish a process for periodic review of the role and function of the Board in fulfilling its responsibilities under the Credit Unions Act.	The Board of CUDIC concurs that Board review is important.
The Board of the Credit Union Deposit Insurance Corporation should document approved policies in a policy manual and update the manual as required.	A significant amount of work has been carried out in developing new policies.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Credit Unions Act should be amended to provide an inspection function that is controlled by the Credit Union Deposit Insurance Corporation.	The Board of CUDIC continues to work on this recommendation.
The Board of Directors of the Credit Union Deposit Insurance Corporation should develop a Board policy which sets out actions to be taken for certain categories of risk associated with deteriorating financial condition of a credit union.	The Board has been working on new policies and hopes to finalize them by March 31, 2006.
Each credit union should be subject to an annual external financial audit. The Credit Unions Act should be amended to require a credit union auditor to be a public accountant as defined under the Public Accounting and Auditing Act.	The Office of the Attorney General agrees with this recommendation. The CUDIC Board met with the Credit Union presidents to discuss this recommendation. Further discussions will be held in the coming year.
The Board of Directors of the Credit Union Deposit Insurance Corporation should re-examine the investment policy for the deposit insurance fund and consider introducing diversification into the portfolio.	The Board of CUDIC has been working on new policies to address this recommendation.
The annual report of the Credit Union Deposit Insurance Corporation should include additional information resulting from the monitoring of credit unions and the administration of the Deposit Insurance Fund.	The Board of CUDIC continues to work towards the implementation of this recommendation.

HIGHWAY MAINTENANCE

12.15 Following we present the outstanding recommendations resulting from the audit of Highway Maintenance presented in the Auditor General's 2003 Annual Report. The status of implementation of these recommendations is presented based on information received from management of the Department of Transportation and Public Works.

Auditor General's Recommendation	Status/Management Response
The Highway Maintenance Division should prepare a plan which sets out measurable objectives. The annual report should show the results achieved compared to the objectives.	The Highway Maintenance Division will continue to work towards establishing reporting methods with measurable objectives. The annual report will provide information on results achieved when meaningful measurements have been established.
The Division should determine the labour required to carry out summer maintenance activities as established in a Divisional plan. Management should prepare a summary showing variances from the plan and provide explanations for any differences.	The Division has developed a new organizational structure which provides fewer management zones, fewer work crews and fewer staff. It is being implemented via attrition over 24 to 36 months.
The Division's policy for half-ton rentals from employees should be submitted to Treasury Board for review and approval.	Rates for the rental of half ton trucks have been identified in the Department's negotiated rate book. An internal policy has been developed and will be submitted to Treasury Board for approval.
Work orders and preventive maintenance checklists should be signed by mechanics and included with vehicle files.	Work orders and preventative maintenance checklists are now being signed by mechanics and filed.

12. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
The Division should compare the cost of renting each type of equipment with the cost of owning equipment to determine whether renting or owning is more economical.	The Department is following this recommendation. The most obvious areas where the cost/benefit ratio is highest have been dealt with first. Other classes of equipment will be evaluated and further purchases may be made.
The Division should consider using a dispatch system for utilizing dump trucks during the summer.	The potential advantages of a dispatch system are still under consideration but are significantly less than when this recommendation was made two years ago due to recent efficiencies that have been realized in the utilization of dump trucks.

PEI BUSINESS DEVELOPMENT INC. - GRANTS AND CONTRIBUTIONS

12.16 Following are the outstanding recommendations resulting from our audit of PEI Business Development Inc.-Grants and Contributions which was reported in the Auditor General's 2002 Annual Report. The current status of implementation of the recommendations is presented based on information received from management of PEI Business Development Inc.

Auditor General's Recommendation	Status/Management Response
Actual job creation should be determined on a periodic basis and reported to the Board of Directors.	Reports were provided to the Board in April and September 2005.
Criteria should be developed for all programs and approved by the Board of Directors.	Criteria have been presented and reviewed with the Board.
PEI Business Development Inc. should monitor financial information to ensure that the terms of the Letter of Offer are followed by the client.	BDI has designated the controller of IIDI as compliance coordinator. The coordinator will follow up with each division on an ongoing basis to ensure procedures for monitoring are followed.

PUBLIC ACCOUNTS COMMITTEE

13. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

13.1 The Standing Committee on Public Accounts is a Committee of the Legislative Assembly. It provides an important link in the accountability process. Through the Committee proceedings members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable for the use of public funds and the stewardship of public assets.

13.2 The Committee currently consists of eight members and is chaired by a member of the Official Opposition. It is charged with matters concerning the Public Accounts of the Province and the Auditor General's Annual Report. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

PROCEEDINGS AND RESULTS

13.3 During the year the Committee met to complete the review of my 2004 Annual Report and review my 2005 Annual Report. On November 9, 2005 the Polar Foods International Inc. Final Report Prepared for the Auditor General of Prince Edward Island was released. The Report was prepared by KPMG LLP. The Committee requested that I review the Report with them and I appeared before the Committee on two occasions. Since the date of my last Annual Report up to February 23, 2006, I appeared before the Committee on nine occasions and assisted in their deliberations by providing further information, explanation and clarification on a number of issues.

13.4 Through its deliberations the Committee has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to continuing to work with the Committee in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

14. OFFICE OF THE AUDITOR GENERAL

MANDATE AND MISSION

14.1 The mandate of the Office is derived from the Audit Act. As a servant of the Legislative Assembly, the Auditor General is independent of government. Authority is given to carry out financial statement audits of the Public Accounts as well as any agency of government or Crown controlled or owned corporation.

14.2 Under the Act, the Auditor General has a broad mandate to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purposes and is doing so economically and efficiently in compliance with the applicable statutory requirements.

14.3 The mission of the Office of the Auditor General is

- to conduct independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly; and
- to promote best practices in government operations.

RESPONSIBILITIES AND FUNCTIONS

14.4 The Audit Act sets out the responsibilities of the Auditor General. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. The work of the Office can be categorized into two main types of assignments - financial audits, and special audits and examinations.

14.5 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the financial auditor for a number of Crown agencies.

14.6 The mandate allows the Auditor General to conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable

statutory provisions. Special examinations may include work on compliance with applicable authorities on a government-wide basis. In addition, the Act allows for special assignments or investigations at the request of the Lieutenant Governor in Council.

14.7 The Office performs an important service to the Legislative Assembly. In some cases where government reports information about its performance, we comment on its completeness and accuracy and thus provide credibility and add value to that information. In other circumstances we audit government programs directly and report our findings to the Legislative Assembly and the public. The reports resulting from these assessments include recommendations and advice which can assist government in identifying opportunities for improvement in the management and control of public funds.

OPERATING PHILOSOPHY

Independence

14.8 The Auditor General is responsible to the Legislative Assembly, not government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The Audit Act establishes the legal framework for an independent audit office. The key components in building that independence include:

- the existence of a Legislative Audit Committee which reviews the Office's budget;
- the authority to carry out the audits and examinations which the Auditor General deems necessary;
- the right of access to records and information necessary to perform audit functions;
- the power to request and receive information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

14.9 In addition, the independence of the Office is supported by an office code of conduct which includes, among other things, policy and guidance on integrity, impartiality, and potential conflict of interest situations.

Audit Planning

14.10 Each year an audit work plan is developed consistent with the audit priorities established by the Office and the resources available. The annual work plan includes a number of financial statement audits as well as special audits and examinations.

14.11 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a specific division or program. Audits are sometimes carried out on a particular function on a government-wide basis.

14.12 Various factors are considered in establishing priorities for special audits and examinations. These include; materiality of revenues/expenditures, results of previous audits, the date of the last audit, and the impact on the public. Other factors considered in planning each audit include; our audit mandate, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, complexity of the operations, and possible matters of significance that may arise from the audit.

Professional Standards

14.13 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on generally accepted accounting principles for the public sector in conducting our audits as well as other guidance provided by the CICA.

14.14 Our audits are conducted in accordance with generally accepted auditing standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities. They are designed to ensure that our audits are properly planned, conducted, and reported and that audit findings are based on well substantiated evidence.

14.15 The Office is subject to a periodic practice inspection carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession. The most recent practice inspection was completed in May 2005.

PERSONNEL, ADMINISTRATION AND AFFILIATIONS

Organization

14.16 The Office staff complement consists of two audit directors, twelve auditors and two administrative staff. Three other auditor positions remain vacant, due to lack of budgetary resources. With our limited staff we strive to provide audit coverage of significant areas of government on a cyclical basis.

14.17 Under the Audit Act, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is Chairperson; the Leader of the Opposition; and the Provincial Treasurer. On an annual basis, the Committee reviews the budget estimates of the Office.

14.18 For the year ended March 31, 2006 budgeted expenditures for the Office amounted to $1,356,600 as follows.

	2005-06 Budget Estimate
Administration	$ 33,000
Equipment	8,500
Materials, Supplies, and Services	11,600
Professional and Contract Services	101,300
Salaries	1,166,600
Travel and Training	23,200
Contribution - CCAF	12,400
Total	$1,356,600

Professional Affiliations

14.19 As an Office we strive to keep current in all aspects of legislative and other audit practices, as well as new developments within the profession. The Office maintains a close association with a number of professional organizations, and experience and methodology is shared with a view to contributing to the continuing development of legislative audit practices. Some of the key affiliations include the following:

- The Canadian Council of Legislative Auditors (CCOLA) - The meetings of the Council bring together legislative auditors from the federal government and the provinces and provide an opportunity for information exchange, discussion, development and enhancement of legislative audit practices. Members of the Office serve on various CCOLA committees.

- The Public Sector Accounting Board - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession through membership on various committees.

- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit. At the joint CCPAC-CCOLA session in August 2005 CCAF presented results of their Research on Parliamentary Oversight - Committees and Relationships.

OBJECTIVES AND ACCOMPLISHMENTS

14.20 In accordance with its mandate, the Office has established two broad goals:

(I) To promote improved accountability for, and management of, public funds.

(II) To continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.

In support of these goals, the Office has developed a number of objectives. The following paragraphs provide information on each of these objectives and the accomplishments during the year.

(I) To prepare an Annual Report for the Legislative Assembly, as required under the Audit Act, on the results of the audits that have been carried out.

14.21 The Annual Report provides information on significant issues and recommendations resulting from our work. We expect that the Annual Report presented each year will act as a vehicle for positive

change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts provide the impetus to bring about the improvements recommended in the Report.

14.22 The 2005 Annual Report of the Auditor General was tabled in the Legislative Assembly on April 6, 2005. The Report was referred to the Public Accounts Committee and the Auditor General appeared before the Committee to discuss the Annual Report and provide additional information and explanations to the Committee.

(ii) To express opinions on the financial statements of the Public Accounts of the Province and other Crown agencies subject to audit.

14.23 An unqualified opinion was provided on the Public Accounts for the year ended March 31, 2005. We continue to work closely with the Office of the Comptroller in improving the financial statement presentation and disclosure. In addition to the Public Accounts, we conduct a number of financial statement audits of Crown Corporations, Pension and Trust Funds, and other Agencies. This process provides assurance to the taxpayers, through the Legislative Assembly, on the fairness of information reported by government.

(iii) To perform selected special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.

14.24 The Office has a limited amount of resources to carry out its work. Many of the financial statement audits which we perform are required under legislation. The extent of special audit and examination work that we can undertake is determined by the resources available after the financial audit work has been assigned.

14.25 Our special audits and examinations provide information and assurance on the management of public resources in a number of areas. We provide advice and make recommendations to improve management controls and practices where problems are identified.

(iv) To perform other investigations as may be required from time to time.

14.26 It has been our practice to follow up on outstanding recommendations and provide information in our Annual Report on the status of implementation of the recommendations arising from our audits. This is part of the legislative audit function which provides important feedback to the Public Accounts Committee, and assists in its role of holding government accountable.

(v) To maintain technical competence in an evolving accounting and auditing environment.

(vii) To remain aware of and provide input to the development of public sector accounting standards.

(viii) To build leadership within the Office by providing professional development and training opportunities for staff.

14.27 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep up to date on emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board and the Assurance Standards Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting standards. In addition we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience as well as receive information on newly developed methodology.

14.28 Audit staff within the Office have professional accounting designations. We strive to provide training and professional development opportunities to staff. Individual staff members attend various professional conferences, seminars and meetings.

14.29 For 2006 and subsequent years the Institute of Chartered Accountants of PEI will be requiring members to take a minimum of 20 hours of professional development per year and not less than 120 hours in a three year period.

SCHEDULES

OPERATING FUND
APPROPRIATIONS
AS OF FEBRUARY 15, 2006

ORDINARY	APPROPRIATION ACT 2004	GOVERNMENT REORGANIZATION	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	APPROPRIATION ACT EXPENDITURES 2004/2005		OPERATING FUND EXPENDITURES 2004/2005
AGRICULTURE, FISHERIES AND AQUACULTURE (originally Agriculture, Fisheries, Aquaculture & Forestry)	$ 38,473,800	$(5,565,000)	$ 3,213,300	$ 132,100	$ 36,254,200	$ 36,665,531	Note	$ 36,625,608
PEI GRAIN ELEVATORS CORPORATION	165,000	-	-	-	165,000	165,000		165,000
OFFICE OF THE ATTORNEY GENERAL	32,152,500	-	-	262,800	32,415,300	32,568,297	Note	32,545,236
AUDITOR GENERAL	1,248,200	-	-	10,400	1,258,600	1,231,460		1,231,460
COMMUNITY AND CULTURAL AFFAIRS	30,364,700	-	60,000	130,400	30,555,100	21,610,669		21,610,669
DEVELOPMENT AND TECHNOLOGY	5,553,900	-	-	65,300	5,619,200	5,559,842		5,559,842
PEI BUSINESS DEVELOPMENT INC.	22,043,900	-	-	105,600	22,149,500	21,849,500		21,849,500
EMPLOYMENT DEVELOPMENT AGENCY	3,038,900	-	-	5,200	3,044,100	2,902,382		2,902,382
EDUCATION	222,661,400	-	870,000	1,854,000	225,385,400	225,384,365		225,384,365
ISLAND REGULATORY AND APPEALS COMMISSION	1,200,000	-	-	-	1,200,000	1,200,000		1,200,000
ENVIRONMENT, ENERGY AND FORESTRY (originally Environment and Energy)	6,346,600	5,565,000	95,100	136,200	12,142,900	11,734,802		11,734,802
PEI ENERGY CORPORATION	600,600	-	-	2,700	603,300	600,600		600,600
EXECUTIVE COUNCIL	2,750,700	-	258,000	21,700	3,030,400	2,698,236		2,698,236
HEALTH AND SOCIAL SERVICES	428,319,300	-	1,117,200	2,599,700	432,036,200	431,829,379		431,829,379
LEGISLATIVE ASSEMBLY	3,480,300	-	-	-	3,480,300	3,410,163		3,410,163
PROVINCIAL TREASURY	19,642,600	-	-	180,500	19,823,100	18,364,025	Note	17,752,176
GENERAL GOVERNMENT	13,916,500	-	-	(6,366,500)	7,550,000	5,246,108		5,246,108

See note on page 3

OPERATING FUND
APPROPRIATIONS
AS OF FEBRUARY 15, 2006

ORDINARY	APPROPRIATION ACT 2004	GOVERNMENT REORGANIZATION	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	APPROPRIATION ACT EXPENDITURES 2004/2005		OPERATING FUND EXPENDITURES 2004/2005
TECHNOLOGY ASSET MANAGEMENT	$ 2,700,700	$ -	$ -	$ -	$ 2,700,700	$ 2,427,002		$ 2,427,002
PEI LENDING AGENCY	746,200	-	2,690,000	16,100	3,452,300	3,436,200		3,436,200
COUNCIL OF ATLANTIC PREMIERS	123,500	-	-	-	123,500	122,900		122,900
PEI PUBLIC SERVICE COMMISSION	5,073,800	-	-	-	5,073,800	4,866,738		4,866,738
EMPLOYEE BENEFITS	11,502,400	-	-	-	11,502,400	41,574,899	Note	27,460,356
TOURISM	136,400	-	-	900	137,300	129,215		129,215
TOURISM PEI	18,030,500	-	-	74,700	18,105,200	12,312,907		12,312,907
TRANSPORTATION AND PUBLIC WORKS	72,395,200	-	6,582,600	767,500	79,745,300	76,087,690	Note	84,784,948
INTERMINISTERIAL WOMEN'S SECRETARIAT	300,100	-	-	700	300,800	293,272		293,272
INTEREST CHARGES ON DEBT	106,635,000	-	-	-	106,635,000	102,087,137		102,087,137
WORKFORCE RENEWAL PROGRAM	-	-	-	-	-	-	Note	14,114,543
AMORTIZATION OF TANGIBLE CAPITAL ASSETS	-	-	-	-	-	-	Note	22,985,172
TOTAL ORDINARY	$1,049,602,700	$ -	$14,886,200	$ -	$1,064,488,900	$1,066,358,319		$1,097,365,916
CAPITAL								
TRANSPORTATION AND PUBLIC WORKS	26,250,000	-	-	-	26,250,000	25,953,921	Note	-
GRAND TOTAL	$1,075,852,700	$ -	$14,886,200	$ -	$1,090,738,900	$1,092,312,240	Note	$1,097,365,916

See note on page 3

OPERATING FUND
APPROPRIATIONS

Note : Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Act 2004. During the year, expenditures were recorded on the same basis as the Appropriation Act 2004. This differs from the format used in the Operating Fund. The Province has prepared the Operating Fund financial statements to comply with Public Sector Accounting Board standards for the recording of tangible capital assets. As a result, amortization of tangible capital assets are recorded as expenses in the Operating Fund. Also, Workforce Renewal Program expenses were reclassified at year end in the Operating Fund.

	Per Appropriation Act	Workforce Renewal Program	Tangible Capital Asset Adjustments	Per Operating Fund
Agriculture, Fisheries and Aquaculture	$ 36,665,531	$ -	$ (39,923)	$ 36,625,608
Office of the Attorney General	32,568,297	-	(23,061)	32,545,236
Provincial Treasury	18,364,025	-	(611,849)	17,752,176
Employee Benefits	41,574,899	(14,114,543)	-	27,460,356
Transportation and Public Works	76,087,690	-	8,697,258	34,784,948
Workforce Renewal Program	-	14,114,543	-	14,114,543
Amortization of Tangible Capital Assets	-	-	22,985,172	22,985,172
Transportation and Public Works - Capital	25,953,921	-	(25,953,921)	-
		$ -	$ 5,053,676	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	AGRICULTURE, FISHERIES AND AQUACULTURE (originally Agriculture, Fisheries, Aquaculture and Forestry)		
EC 2005-145	CORPORATE AND FINANCIAL SERVICES		
	Grants - Crop Insurance Fund		$ 387,500
	Funding for Safety Net programs. The expenditure was to be offset 100 percent by the sequestration of funds originally budgeted in General Government.		
EC 2005-654	CORPORATE AND FINANCIAL SERVICES		
	Canadian Agricultural Income Stabilization	$2,697,900	
	FISHERIES AND AQUACULTURE		
	Professional and contract services	127,900	2,825,800
	Funding for accrued financial commitments related Safety Net programs and legal fees for a fisheries dispute.		
	Total		$3,213,300
	COMMUNITY AND CULTURAL AFFAIRS		
EC 2005-130	PLANNING AND INSPECTION SERVICES		
	Municipal Equalization Grants		$ 60,000
	Funding for bilingual signage for the municipalities of Charlottetown and Summerside. The expenditure was to be offset 100 percent by federal revenue.		
	EDUCATION		
EC 2005-183	CONTINUING EDUCATION AND TRAINING		
	Labour Market Development		$ 870,000
	Funding for the Province's obligation under the Skills Development Contribution Agreement. The expenditure was to be offset 100 percent by federal revenue.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	ENVIRONMENT, ENERGY AND FORESTRY (originally Environment and Energy)		
EC 2004-425	CONSERVATION AND MANAGEMENT		
	Computer equipment	$ 34,700	
	Field supplies	1,000	
	Wages- casual payroll	53,000	
	In-province travel	6,400	$ 95,100
	Funding for the Water Delineation Project. The expenditure was to be offset 100 percent by federal revenue.		
	EXECUTIVE COUNCIL		
EC 2004-640	ACADIAN AND FRANCOPHONE AFFAIRS		
	Administration	$ 17,000	
	Professional and contract services	100,000	
	Grants	75,000	$ 192,000
	Funding to assist the implementation of the French Language Services Act. The expenditure was to be offset 100 percent by federal revenue.		
EC 2005-131	ACADIAN AND FRANCOPHONE AFFAIRS		
	Grants		66,000
	Additional funding to strengthen the capability for the Province to implement the French Language Services Act. The expenditure was to be offset 100 percent by federal revenue.		
	Total		$ 258,000
	HEALTH AND SOCIAL SERVICES		
EC 2004-514	OFFICE OF THE CHIEF HEALTH OFFICER		
	Administration	$ 32,000	
	Materials, supplies and services	125,000	
	Salaries	91,500	
	Grants- Regional Services	763,500	$1,012,000
	To fund the Whooping Cough Vaccination Program. The expenditure was to be offset 100 percent by Aventis Pasteur Limited.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS	
EC 2005-416	DEPARTMENT MANAGEMENT / SERVICES	
	Grants- Health Research and Epidemiology	$ 105,200
	Funding for the Health Research Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Health Research Fund.	
	Total	$1,117,200
	PEI LENDING AGENCY	
EC 2005-655	DIVISION MANAGEMENT	
	Operations- Crown corporations	$2,690,000
	To provide for the loss from operations for the fiscal year ending March 31, 2005.	
	TRANSPORTATION AND PUBLIC WORKS	
EC 2005-537	PROVINCIAL WASTE MANAGEMENT	
	Professional and contract services	$6,582,600
	To provide funding for the cumulative operating losses of Island Waste Management Corporation incurred to March 31, 2005.	